THE STATE OF THE NATION'S HOUSING 2013

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

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Executive Summary

The long-awaited housing recovery finally took hold in 2012, heralded by rising home prices and further rental market tightening. While still at historically low levels, housing construction also turned the corner, giving the economy a much-needed boost. But even as the most glaring problems recede, millions of homeowners are delinquent on their mortgages or owe more than their homes are worth. Worse still, the number of households with severe housing cost burdens has set a new record.

THE HOUSING MARKET REVIVAL

A broad range of housing market indicators showed marked improvement last year. After modest gains in 2011, existing home sales accelerated to their fastest pace since 2007. New home sales posted their first year-over-year increase since the downturn began, up 62,000 or some 20 percent from 2011's historic low. With a record-low inventory of new homes on the market to meet strengthening demand, single-family starts shot up 24 percent. Multifamily starts also climbed sharply for the second year in a row, bringing total 2012 starts to 781,000. With these increases, residential construction made its first positive contribution to GDP in seven years, adding more than a quarter-point to economic growth.

The turnaround in home prices was widespread **(Figure 1).** As of December 2011, 81 of the 100 metropolitan areas tracked by CoreLogic still reported year-over-year price declines. Just one year later, prices were on the upswing in 87 of these markets. The momentum continued into 2013, lifting the number of markets with rising prices to 94. On the strength of these gains, the national median house price was up 11.6 percent in March 2013 from a year earlier.

Multiple factors have bolstered house prices, including record-low mortgage interest rates and steady, if not spectacular, employment growth. Low inventories of properties for sale are also a key driver, with supplies of both new and existing homes well below the six-month level that traditionally indicates a balanced market. Institutional as well as mom-and-pop investments in distressed single-family homes have also served to firm prices in certain markets, particularly Phoenix, Las Vegas, and Atlanta. The influence of investors is also evident in the different rates of price appreciation across submarkets. In metros where investors have been most active, prices for homes in the bottom tier were up 22 percent in March 2013, while those for homes in the top tier rose 13 percent, according to the S&P/Case-Shiller index.

A sustained rebound in house prices will soothe many of the housing market's ills. Rising home equity provides owners a greater sense of security about spending, especially on big-ticket items such as home improvements. Even modest price apprecia-

tion over the next year should also put some of the four million households that have limited equity or are only slightly underwater in a better position to sell. This would, in turn, expand the supply of homes for sale and give further impetus to the market. Rising prices could also encourage many owners with substantial equity who have wanted to move to finally put their homes on the market. Indeed, 26 percent of respondents to Fannie Mae's March 2013 survey agreed that it was a good time to sell—almost twice the 14 percent share a year earlier, although still less than half the historical average.

ACCELERATING HOUSEHOLD GROWTH

After holding near 600,000 for the previous five years, household growth picked up to almost 1.0 million in 2012 **(Figure 2)**. Stronger immigration helped to boost the pace of growth, with the foreign-born population registering its largest increase since 2008. Now exceeding the Joint Center's low-immigration projection, the gains in 2012 signal improvement in this fundamental measure of housing demand.

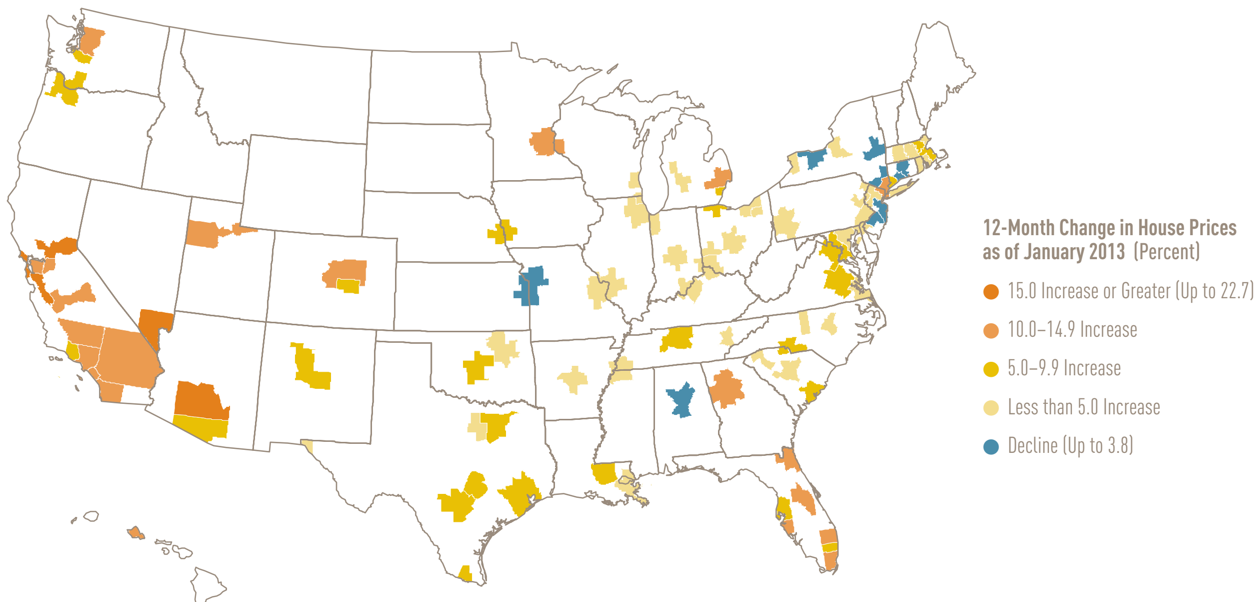
So far, many young adults prevented by the Great Recession from living on their own have still not formed independent households. As unemployment rates rose during the downturn, the share of young adults living independently dropped significantly even as the population under age 35 climbed. As a result, the number of households headed by young adults remained stable. As the economy continues to recover, however, expanded job opportunities should help to release some of the pent-up housing demand within this age group.

While economic conditions drive household growth in the short run, the size and age structure of the adult population are more important factors in the long run. Based on the Census Bureau's latest population projections and recent estimates of headship rates, demographic drivers support household growth of approximately 1.2 million a year over the remainder of the decade—similar to the rates in the 1990s as well as in the years preceding the Great Recession.

But while the overall pace may be similar to the past, the composition of household growth is changing—and with it, the direction of housing demand. Over the next decade, the number of households aged 65 and over is projected to increase by 9.8 million. Most of these households will opt to age in place and may therefore need to modify their homes to accommodate their changing needs. But a large number will look for different housing opportunities, creating demand for new types of units in communities where they currently live as well as in areas that traditionally attract retirees. Even if the relatively low

FIGURE 1

House Prices Across the Country Were on the Rise in 2012

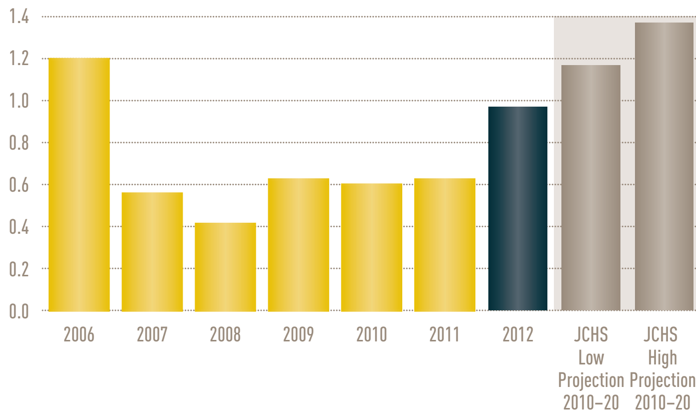


Source: JCHS tabulations of CoreLogic®, Home Price Index.

FIGURE 2

Household Growth Approached the One Million Mark in 2012

Change in Households (Millions)

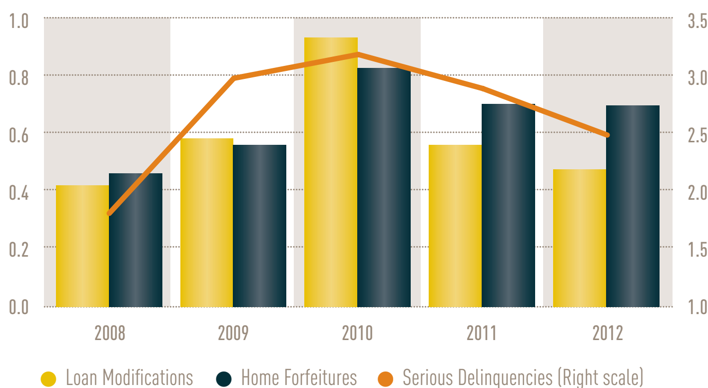


Note: JCHS low (high) projection assumes that immigration in 2010–20 is 50% (100%) of the US Census Bureau's 2008 middle-series population projection.
Sources: US Census Bureau, Housing Vacancy Survey; JCHS 2010 household growth projections.

FIGURE 3

Loan Modifications Have Declined More Quickly than Serious Delinquencies and Home Forfeitures

Number of Loans (Millions)



Notes: Home forfeitures are completed foreclosures or short sales. Serious delinquencies are loans 90 or more days delinquent or in foreclosure.
Source: US Office of the Comptroller of the Currency, Mortgage Metrics Reports.

mobility rate for seniors does not increase, the sheer size of this age group means that the number of mover households aged 65 and over is likely to increase from 1.2 million per year to 1.6 million annually over the decade.

Minorities—and particularly younger adults—will also contribute significantly to household growth in 2013–23, accounting for seven out of ten net new households. An important implication of this trend is that minorities will make up an ever-larger share of potential first-time homebuyers. But these households have relatively few resources to draw on to make downpayments. For example, among renters aged 25–34 in 2010, the median net wealth was only $1,400 for blacks and $4,400 for Hispanics, compared with $6,500 for whites. Even higher-income minority renters have relatively little net wealth, with both blacks and Hispanics in the top income quartile having less than half the average net wealth of whites. Proposed limits on low-downpayment mortgages would thus pose a substantial obstacle for many of tomorrow's potential homebuyers.

PERSISTENT SLIDE IN HOMEOWNERSHIP

The national homeownership rate fell for the eighth straight year in 2012, from 66.1 percent to 65.4 percent. This drop reflects not only the addition of 1.1 million renters, but also a net loss of 161,000 homeowners for the year. The rollback was especially pronounced among African-Americans, whose homeownership rate has now dropped 5.8 percentage points from the peak and is back to its lowest level since 1995. The decline among Hispanics was a more modest 3.3 percentage points. And given their strong homeownership gains over the previous two decades, their rate still exceeds 1990s levels.

How much farther homeownership rates will fall is an open question. For each 10-year age group between 25 and 54, the share of households owning homes is already at its lowest point in records that began in 1976. Indeed, the overall homeownership rate is only as high as it is because households over age 65 now have the highest rates on record and account for an ever-larger share of the population.

But monthly housing costs have rarely been more favorable for homebuyers. When combined with the sharp drop in home prices, today's low mortgage interest rates have made owning a home more affordable than at any time since the 1970s. So far, though, these conditions have failed to boost first-time homebuying. But with steady job growth helping to bolster household finances and rising home prices signaling a market turnaround, 2013 may well be the year that homeownership rates stabilize. A key issue is whether tight credit conditions will continue to limit the ability of would-be homebuyers to take advantage of today's affordable conditions.

Although the number of distressed properties remains elevated, the good news is that mortgage delinquencies steadily declined in 2012 to their lowest levels since 2008. Together with low mortgage interest rates, improvements to the Home Affordable Refinance Program (HARP) also allowed 1.1 million underwater and low-equity homeowners to reduce their monthly payments by refinancing in 2012. These reductions not only lowered the risk that these borrowers would become delinquent, but also put more money into their pockets for other expenses.

Still, millions of loans were seriously delinquent or in foreclosure last year **(Figure 3).** According to the Office of the Comptroller of the Currency, servicers implemented 478,500 loan modifications in 2012—about a quarter of them through the Home Affordable Modification Program (HAMP). But the volume of modifications was down nearly 50 percent from the 2010 peak while serious delinquencies fell only 22 percent and home forfeitures (including foreclosures and short sales) just 16 percent. In recognition of the compelling need for remedies short of foreclosure for the millions of homeowners still struggling to retain their homes, the Treasury Department has extended HAMP through the end of 2015.

CONTINUED STRENGTH IN RENTAL MARKETS

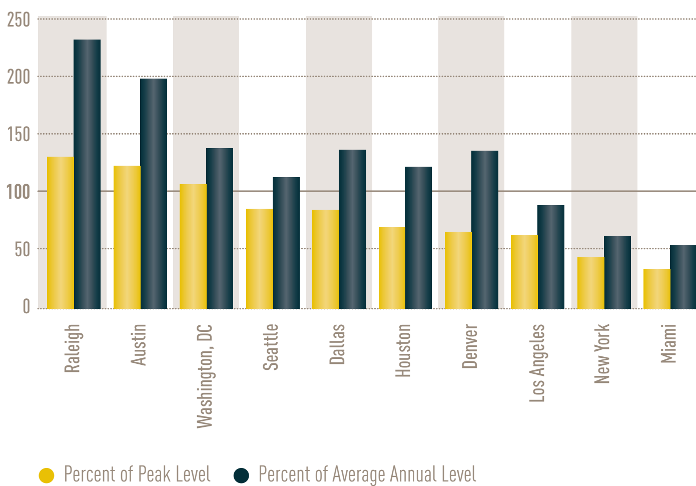
The rental housing recovery that began in 2010 continued to gain steam. Fueled by the growing share of households opting to rent, the national rental vacancy rate fell for the third straight year to 8.7 percent in 2012, the lowest level since 2001. As measured by the consumer price index, rents rose 2.7 percent for the year, slightly outpacing overall inflation. Market conditions for professionally managed apartments were even stronger, with MPF Research reporting average vacancy rates of 4.9 percent and rent increases of 3.7 percent in this market segment.

With the number of renter households growing briskly, construction of new rental units rose to 258,000 units in 2012—the highest level since 2004. Building permits for multifamily units, which account for most newly built additions to the rental stock, were up sharply in many markets. Indeed, multifamily permitting in 34 of the 100 largest metro areas surpassed average levels in the 2000s, while activity in Austin, Raleigh, and Bridgeport approached all-time highs.

FIGURE 4

Multifamily Permitting in Most of the Top Ten Markets Is Still Below Recent Peaks

Multifamily Permits in 2012 as a Share of 2000–09 Levels (Percent)



Source: JCHS tabulations of US Census Bureau, New Residential Construction.

The sharp rebound has raised concerns that developers may be overshooting demand. But given the low permitting levels in 2008 and 2009, the recent outsized increases in top markets put total permitting in the past five years in line with historical averages **(Figure 4).** And on a national level, construction of new rental housing last year ran about 50,000 units below the average volume in 1997–2003 when renter household growth was at a fraction of its current pace.

The tightening in the apartment market does, however, appear to be losing momentum. According to national measures from MPF Research, rent increases decreased each quarter after the 2011 peak, in tandem with slower absorption of new units. Given the long lags from planning to completion of apartment buildings, supply could outstrip demand when this new housing is ready for occupancy. But with the generally healthy level of demand, it is also possible that these new units will be absorbed without a substantial rise in vacancies.

In fact, with the addition of 1.1 million renter households last year, much of the increase in rental demand has been met not by new apartments, but by conversion of single-family homes to rentals. Between 2007 and 2011, on net 2.4 million homes switched from owner-occupied to renter-occupied—several times more than the 900,000 rental units started during this period. Tenure switching has been an important safety valve for the single-family market, absorbing the excess owner-occupied housing coming on line as the foreclosure crisis unfolded.

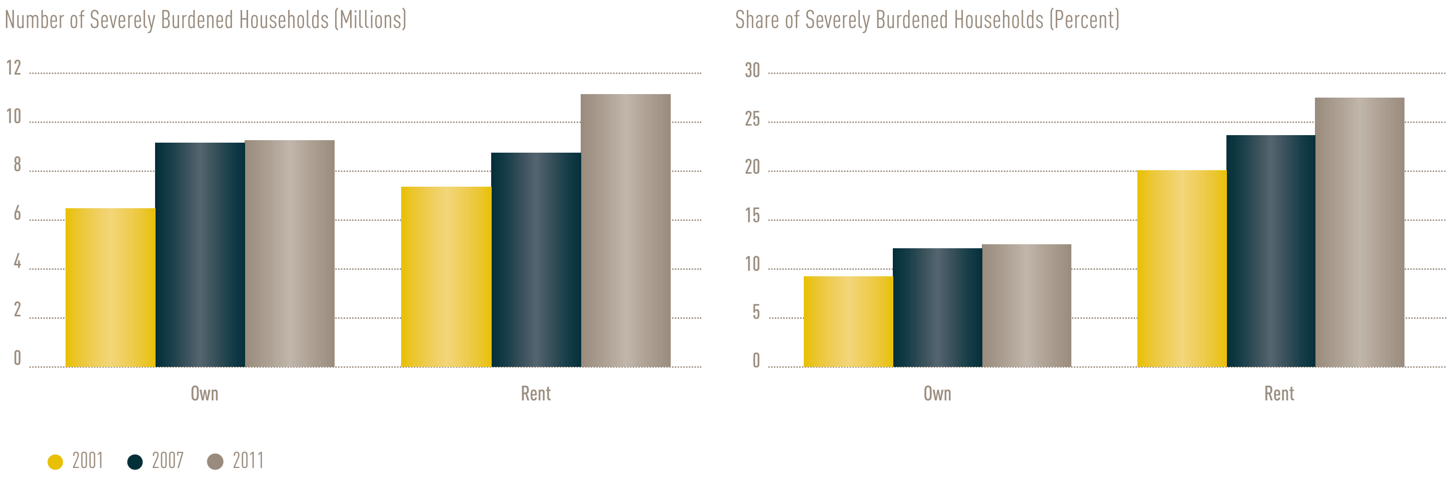
If homeownership rates revive in the coming years and renter demand for single-family units cools, transition of these homes back to the owner-occupied market could thus prevent disruption of the apartment market. Indeed, tenure switching of single-family homes is typical in the housing market. Even between 2007 and 2011, the net additions of single-family homes to the rental market resulted from 3.6 million homes switching from renter- to owner-occupied and 6.0 million homes switching from owner- to renter-occupied.

THE SPREAD OF HOUSING COST BURDENS

In a decade of enormous ups and downs in the housing market, one fact remains constant: the number of households with housing cost burdens continues its inexorable climb. At last count in 2011, over 40 million households were at least moderately cost burdened (paying more than 30 percent of their incomes for housing), including 20.6 million households that were severely burdened (paying more than half of their incomes for housing). The latest increases in the number of severely burdened households represent a jump of 347,000

FIGURE 5

More and More Households Pay Excessive Shares of Income for Housing



Notes: Severely cost-burdened households spend more than 50 percent of pre-tax income on housing costs. Incomes are in constant 2011 dollars, adjusted for inflation by the CPI-U for All Items.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

from 2010, 2.6 million from 2007 when the recession began, and 6.7 million from a decade ago.

While the overall number of cost-burdened households has risen steadily, trends vary by tenure. The most recent increases were almost entirely among severely burdened renters, whose numbers soared by 2.5 million from 2007 to 2011, pushing the share to 27.6 percent **(Figure 5).** While up only 173,000 over this period, the number of cost-burdened homeowners had already surged by 2.7 million in 2001–07 amid the sharp rise in house prices and the widespread availability of easy mortgage credit.

What is remarkable on the owner side is that the incidence of cost burdens has not fallen much more dramatically, given the substantial decline in home prices and low interest rates. Indeed, the share of severely burdened owners rose from 12.1 percent in 2007 to 12.6 percent in 2011. The lack of progress reflects the difficulties that many owners locked into excessive mortgage debt face in attempting to refinance and the still-weak state of the economy. In fact, the overwhelming majority of underwater homeowners continue to make payments on mortgages that exceed the present value of their homes.

While increasingly prevalent at all income levels, severe housing cost burdens are much more common among households with the lowest incomes. Nearly seven out of ten households with annual incomes of less than $15,000 (roughly equivalent to year-round employment at the minimum wage) are severely burdened. With income inequality worsening over the past decade, the share of households with these low incomes has continued to grow.

Meanwhile, the stock of low-cost housing that these households can afford continues to shrink. Between 2007 and 2011, the number of renter households with extremely low incomes (less than 30 percent of area medians) increased by 2.5 million. Over the same period, the number of available housing units that households at this income level could afford to rent declined by 135,000. As a result, the gap between the supply of affordable housing and demand from extremely low-income renters doubled in just four years to 5.3 million units. Given that the typical unit completed in 2012 rented for $1,100 per month, new housing development is unlikely to alleviate this affordability gap.

While the number of low-income households eligible for federal rental assistance has been growing, the number of assisted units has not. According to recent HUD estimates, only one in four of those eligible for rental assistance obtain this help. Funding for the Housing Choice Voucher Program has increased, but with rents rising and incomes falling, the subsidy needed per renter has also increased—leaving the number of assisted households almost unchanged. Other programs—including public housing, the HOME program, and the Community Development Block Grant program—have faced outright cuts. And at a time when the need has never been greater, federal budget sequestration will further limit the number of households receiving rental assistance.

Gaining access to assisted housing has important implications for quality of life. Low-income households with severe housing cost burdens have little left over each month to pay for other necessities. According to the latest Consumer Expenditure Survey, severely burdened families in the bottom expenditure

quartile (a proxy for low incomes) spend a third less on food, half as much on pensions and retirement, half as much on clothes, and three-quarters less on healthcare as families paying affordable shares of their incomes for housing. Extending housing assistance to more eligible households would thus provide a much broader range of benefits than just decent and affordable shelter.

LOOKING BEYOND THE INITIAL RECOVERY

While evidence of a housing market recovery continues to accumulate, significant fallout from the downturn remains. Chief among these concerns is that millions of borrowers are still seriously delinquent on their mortgages. Given this continued need, HAMP—the federal program supporting nearly one in three loan modifications that have kept many troubled loans out of foreclosure—has been extended through 2015. In addition, more than 10 million owners owe more on their mortgages than their homes are worth. Since 2009, HARP has helped some 2.2 million low-equity and underwater borrowers with Fannie Mae- and Freddie Mac-backed mortgages take advantage of today's low interest rates, but millions more borrowers with non-government backed loans have had no such opportunity. More generally, both market and regulatory uncertainties surrounding the mortgage lending business have kept credit standards tight and prevented a more robust housing market recovery.

Meanwhile, reform of the housing finance system slowly advances. The Consumer Financial Protection Bureau (CFPB) filled in one key piece in January 2013 by defining standards for the qualified mortgage, intended to ensure borrowers' ability to meet their mortgage obligations. Another critical milestone will be definition of the qualified residential mortgage, which will establish rules for risk retention by issuers of mortgage-backed securities. Until these standards are defined, however, private capital is unlikely to make a strong return to the mortgage market. And finally, the fate of Fannie Mae and Freddie Mac, as well as the broader role for federal backstops of mortgage markets, continues to hang in the balance.

These decisions have direct bearing on the types, costs, and availability of future mortgage products. In making these choices, policymakers must reconcile the goal of reducing the systemic risk at the root of the Great Recession against the goal of allowing a broad range of lower-income and lower-wealth households to access mortgage financing. The outcomes have implications for rental markets as well, given that the government guarantees an enormous share of multifamily loans. Of particular concern is the availability of long-term, fixed-rate financing for affordable housing developments—funding that is rarely available without federal backing.

On top of these immediate pressures is the persistent spread of housing cost burdens. As it is, housing assistance reaches only a small share of those eligible while targeting the most vulnerable Americans—the disabled, the elderly, and single-parent families with very low incomes. Meanwhile, the foreclosure crisis has exacerbated the distress in many low-income neighborhoods, spreading blight and straining the ability of local governments to invest in these areas. Indeed, governments at all levels face difficult choices between bringing budgets into balance in response to short-term economic woes and addressing longer-term structural challenges. In making these choices, however, policymakers cannot lose sight of the important role that housing plays in ensuring the health and well-being of the nation's households and communities.

2

Housing Markets

With sales picking up, low inventories of both new and existing homes helped to firm prices and spur new single-family construction in 2012. Multifamily markets posted another strong year, with construction activity up sharply in response to tightening conditions. Rising home prices, along with steady job gains, helped to reduce the number of seriously delinquent borrowers and underwater homeowners, while also providing more owners the means to invest in discretionary improvement projects.

REVIVAL OF HOMEBUILDING

By several measures, homebuilding made a comeback in 2012 **(Figure 6)**. After falling another 8.6 percent in 2011, single-family starts were up 24.3 percent, to 535,300 units. Except in 2010 when temporary tax credits helped to boost starts, this was the first annual increase since 2005. Even so, homebuilding activity remained severely depressed, with starts in 2012 at about half the average annual levels in the 1980s and 1990s.

Meanwhile, multifamily starts jumped another 37.7 percent in 2012, to 245,300 units—the second straight year of double-digit gains. As a result, multifamily starts were more than double their 2009 cyclical low but, given the depth of the decline, still below annual averages from past decades.

The rebound in residential construction was widespread, with 91 of the top 100 metropolitan areas reporting increases in single-family permits in 2012. Moreover, permitting activity escalated over the course of the year. Nevertheless, single-family permits in each of the 100 largest metros lagged below annual levels averaged in the 2000s.

On the multifamily side, permitting increased in three-quarters of the top 100 metros. Marking its third year of growth, multifamily construction is well ahead of single-family construction on the path to recovery. While still below average annual levels in the 2000s in the majority (66) of metros, multifamily permitting in several areas exceeded this pace—in some cases, substantially. Indeed, Austin, Raleigh, and Bridgeport each issued permits for more new multifamily units in 2012 than in any year dating back to 1988. But given the low levels of permitting in the late 2000s, even in these cases multifamily production over the last five years is only back in line with historical averages.

HOMES SALES ON THE REBOUND

According to the National Association of Realtors® (NAR), existing home sales increased 9.4 percent in 2011–12, to 4.66 million units. This was the largest percentage increase since 2003–04 and the fastest pace since 2007. And for the first time in seven years, new home sales also increased in 2011–12, rising nearly 20

FIGURE 6

Housing Markets Turned a Corner in 2012

	2010	2011	2012	Percent Change	
				2010–11	2011–12
Single-Family Home Sales					
New (Thousands)	323	306	368	-5.3	20.3
Existing (Millions)	3.7	3.8	4.1	2.1	9.0
Residential Construction					
Total Starts (Thousands)	587	609	781	3.7	28.2
Single-Family	471	431	535	-8.6	24.3
Multifamily	116	178	245	54.0	37.7
Completions	652	585	649	-10.3	11.0
Median Single-Family Sales Price					
New (Thousands of dollars)	233.5	231.9	245.2	-0.7	5.7
Existing (Thousands of dollars)	182.3	169.6	177.2	-6.9	4.5
Construction Spending					
Residential Fixed Investment (Billions of dollars)	358.6	345.7	382.9	-3.6	10.8
Homeowner Improvements (Billions of dollars)	117.5	116.4	124.9	-0.9	7.3

Note: All dollar values are in 2012 dollars, adjusted for inflation by the CPI-U for All Items.
Sources: US Census Bureau, New Residential Construction; Bureau of Economic Analysis, National Income and Product Accounts; National Association of Realtors®, Existing Home Sales.

percent to 368,000 units. This rebound, however, is from 2011's low base so that the pace of new home sales in 2012 was still the third lowest (after 2010 and 2011) in records dating back to 1963. Still, sales continued to gain momentum in early 2013, with April marking the 19th consecutive month of year-over-year increases.

Additional good news is that distressed sales are on the decline. CoreLogic estimates that the share of distressed property sales dropped from 26.4 percent in 2011 to 23.3 percent in 2012. And within this category, lender-owned (REO) sales were down 18 percent while short sales (where the mortgage holder agrees to a sales price that is less than the outstanding loan balance) were up 26 percent and rising steadily over the year. Given that short sales typically carry less of a discount than REO sales, this shift helped to lift overall house prices and reduce REO inventories, especially in hard-hit markets.

Investors had a significant market presence in 2012, accounting for one in five sales nationwide according to NAR, although the shares in several metros were much higher. CoreLogic reports that home sales to non-owner occupants (a proxy for investor and second-home sales) made up approximately 30 percent of sales in Riverside, 26 percent in Sacramento, and 25 percent in Phoenix. Many of these sales were to institutional investors, who moved aggressively into formerly high-growth but recently high-distress cities such as Atlanta, Las Vegas, and Phoenix last year. In these metros, institutional investor sales rose from about 14–18 percent of investor sales entering 2012 to 20–26 percent by the end of the year. The importance of investors in driving home sales is evident in the high share of all-cash transactions, which hovered around 30 percent throughout 2012—well above the 20 percent share averaged as recently as 2009. At the same time, NAR data also indicate that first-time buyers have yet to emerge as a strong source of demand, with their estimated share of annual sales only edging up from 37 percent in 2011 to 39 percent in 2012.

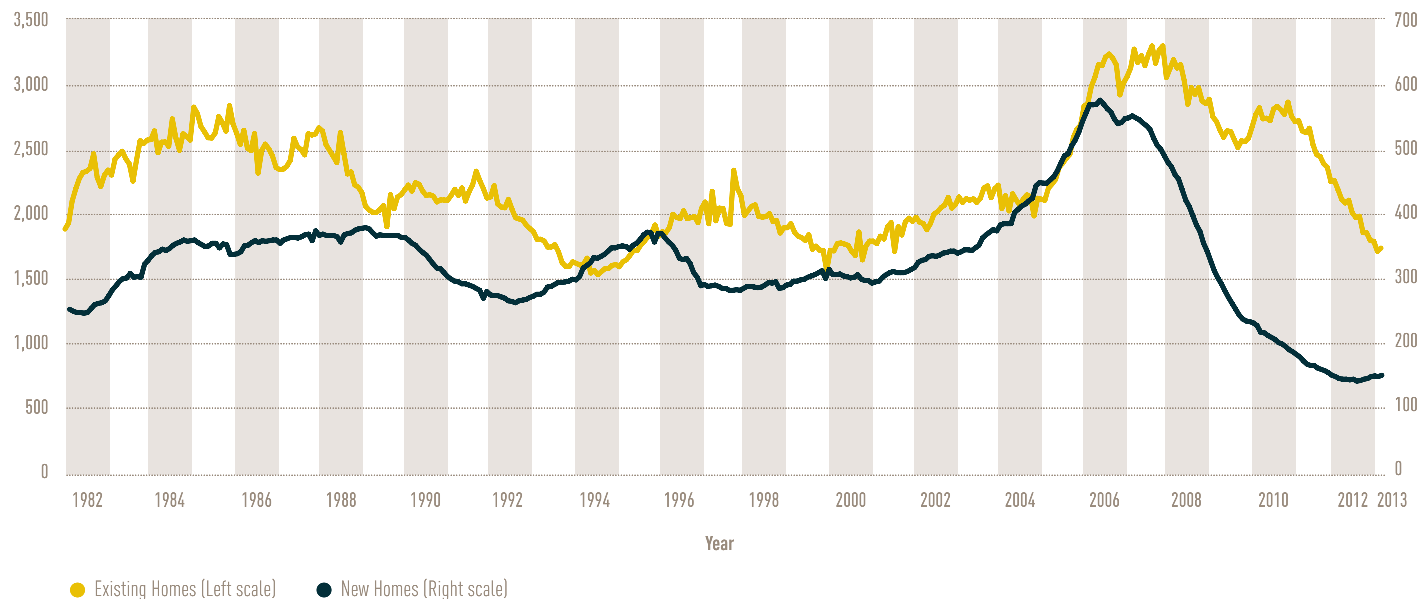
THE SHRINKING FOR-SALE INVENTORY

Supplies of both new and existing homes for sale remain extremely tight **(Figure 7).** The total inventory of new homes for sale was stuck at historical lows throughout 2012, holding near 150,000 units. The stock of new homes completed but not yet sold, however, dropped 27 percent to just 43,000 by December 2012. At that time, the typical new home for sale had been on the market for just 4.7 months, down from 6.7 months in December 2011 and marking the briefest period since December 2006. The supply of existing homes for sale also fell precipitously, with NAR reporting a 24 percent drop from January 2012 to January 2013. The number of existing homes on the market entering 2013 totaled just 1.8 million, more than 500,000 less than a year earlier and the lowest level since 2001.

FIGURE 7

Inventories of Homes for Sale Stand Near Record Lows

Units (Thousands)



Sources: National Association of Realtors®, Existing Home Sales; US Census Bureau, New Residental Sales.

With inventories down and sales accelerating, the supply of homes for sale is now well below the six-month level that traditionally signals a seller's market. The stock of new homes for sale fell from a seasonally adjusted 5.3 months in January 2012 to 4.0 months in January 2013, the lowest reading since October 2004. Inventories of existing homes for sale were nearly as limited, dropping from 6.2 months in January 2012 to just 4.3 months in January 2013.

Limited supplies of homes on the market largely reflect the unwillingness or inability of owners to sell. If recent trends continue, however, these conditions may start to change. According to the Fannie Mae National Housing Surveys for the past 12 months, a solid majority of householders reported that they thought that it was a good time to buy. The share stating that they considered it a good time to sell, however, was just 26 percent in March 2013—far below the typical 50–60 percent share, but still double the share a year earlier. As home prices rise to levels that are more acceptable to sellers waiting on the sidelines, more homes will go on the market. And each uptick in prices provides investors in single-family rentals an incentive to switch the properties to the for-sale market.

FALLING VACANCY RATES

The number of vacant units declined sharply in 2012. According to the Housing Vacancy Survey, the overall supply of vacant units both for sale and for rent dropped by 607,000 or 10.2 percent **(Figure 8)**. Unlike in recent years, most of the decline came on the for-sale side, where vacancies tumbled 18 percent (346,000 units). As a result, the average number of vacant for-sale homes in 2012 was lower than in any year since 2005 and some 674,000 units below the 2008 peak. While the number of vacant rental units fell just 6 percent, this still amounted to a substantial 263,000 drop for the year. This brought the total decline in the number of vacant for-rent units since the peak to 609,000.

At the same time, however, a large inventory of vacant homes was still held off market in 2012. Indeed, this supply increased by 167,000 units (2.3 percent) to a record high of 7.4 million, or fully 5.6 percent of the housing stock. By comparison, the share of vacant units held off market averaged just 4.6 percent in the 1990s and 2000s, implying a current excess of 1.4 million units. Nearly all of the increase in vacant units held off market was concentrated in the South and West—the regions most affected by the foreclosure crisis. It remains to be seen whether the uptick in prices will bring more of the these homes back on the market.

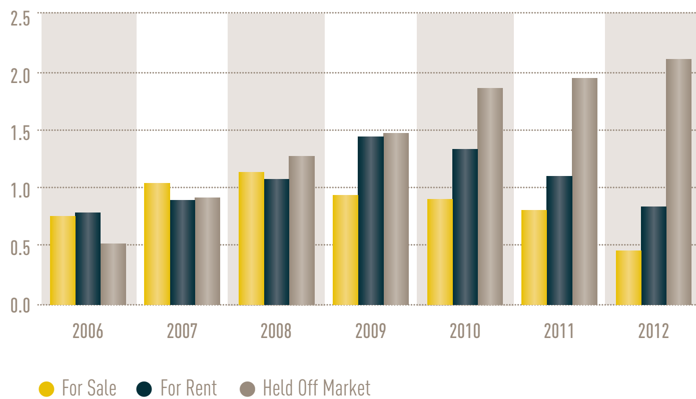
HOUSING PRICES ON THE RISE

After across-the-board declines in 2011, all major house price indexes—CoreLogic, S&P/Case-Shiller, Zillow, and FHFA—regis-

FIGURE 8

While Vacant For-Sale and For-Rent Units Fell in 2012, Vacant Off-Market Units Climbed to a New Record High

Change in Vacant Units Since 2000 (Millions)

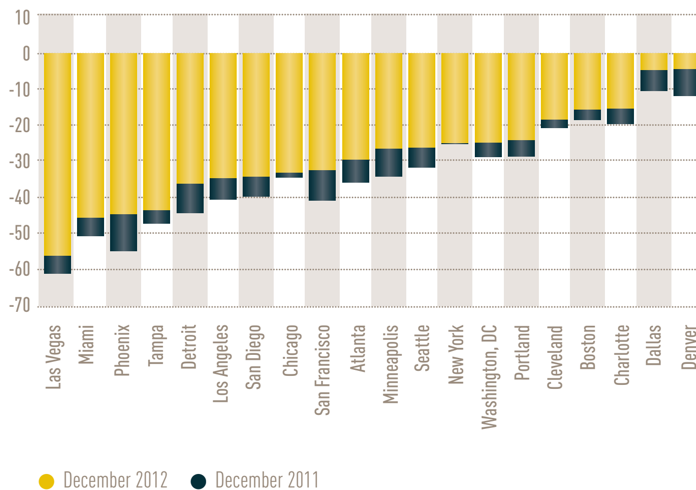


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

FIGURE 9

House Prices Rebounded Widely in 2012, But Remain Well Below Peak Levels

Difference from Peak Price (Percent)



Source: JCHS tabulations of the S&P/Case-Shiller home price index.

tered significant increases in 2012. With the pace of appreciation accelerating, the CoreLogic and Case-Shiller indexes moved up by more than 7 percent over the year. Meanwhile, Zillow's estimates for all housing units and the FHFA expanded-data house price index ended the year with more modest gains of 5.4–5.5 percent.

Median sales prices, which track the price of the typical home sold, rose even more sharply. By December 2012, the price of a typical existing home sold had climbed 10.8 percent and that of a typical new home fully 18.2 percent from a year earlier. For new homes, adjusting for constant quality, sales prices were up 6.4 percent year-over-year in the fourth quarter of 2012.

The upturn in house prices occurred across much of the country. CoreLogic reports that home prices in all but two states, along with 94 of the top 100 metropolitan areas, were on the rise as of April 2013. The pace of appreciation in 2012 ranged widely, with the largest gains in Phoenix (up 23.1 percent) and San Jose (up 18.0 percent). More moderate increases occurred in Dallas (up 4.2 percent) and Houston (up 3.9 percent). At the same time, however, prices were flat in Philadelphia (down 0.2 percent) and fell in Chicago (down 1.7 percent).

In general, metros with the strongest house price appreciation in 2012 fall into two groups. The first includes economically resilient markets facing a combination of very low inventories and relatively strong employment growth. Austin and Denver fit into this category, with just 1.7 months and 2.7 months supply of housing for sale. Sales prices thus climbed 9.5 percent in Austin and 7.0 percent in Denver from December 2011 to December 2012. In other metros such as Phoenix, Atlanta, and Miami, strong investor sales combined with shrinking supplies to drive up prices. Even after significant increases in 2012, however, home prices in these hard-hit markets remained well below peaks **(Figure 9).**

CHIPPING AWAY AT NEGATIVE EQUITY

Rising prices provided some relief to homeowners owing more on their mortgages than their homes were worth. Nationwide, the number of underwater homeowners fell 1.7 million, to 10.4 million, between the fourth quarter of 2011 and the fourth quarter of 2012. Improvements in some of the most troubled metros were significant **(Figure 10).** In Phoenix alone, the number of underwater mortgages dropped by more than 150,000, reducing the share of borrowers with negative equity from 54.5 percent in the fourth quarter of 2011 to 36.6 percent in the fourth quarter of 2012. The number of underwater mortgages also dropped by nearly 100,000 in Atlanta, and was down more than 20 percent in Los Angeles and Las Vegas.

At the same time, however, CoreLogic estimates that as of the fourth quarter of 2012, slightly more than two out of every five owners with negative equity had mortgages that were more than 25 percent larger than what their homes were worth. Owners with negative equity obviously have little incentive to sell because they would be unable to pay off their loans, but those with low equity are also generally reluctant to sell because they would lack sufficient resources to buy other homes. These conditions have slowed the housing market recovery by constricting both the supply of homes for sale and the pool of potential homebuyers (given that sellers often buy again).

FIGURE 10

The Number of Underwater Mortgages Fell Sharply in Several of the Hardest-Hit Markets in 2012

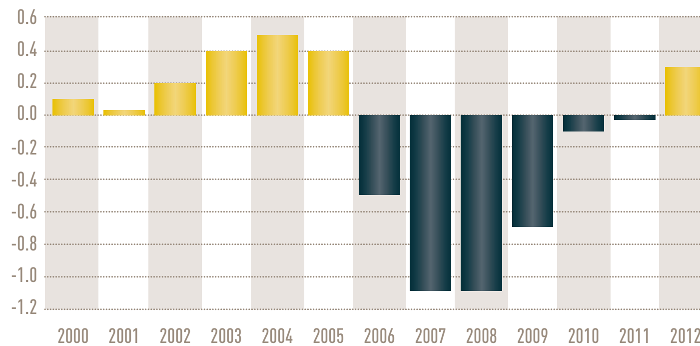
Negative Equity Mortgages (Thousands)

Notes: Negative equity or underwater mortgages are defined as residential loans that exceed the estimated values of the properties. The markets shown are the 10 metros reporting the largest reductions in negative equity mortgages in 2011–12.
Source: CoreLogic®, Negative Equity Reports.

FIGURE 11

After Six Years as a Drag on Growth, Residential Investment Helped to Boost the Economy in 2012

Residential Fixed Investment Share of Real GDP Growth (Percentage points)



Source: JCHS tabulations of BEA, National Income and Product Accounts (NIPA).

THE ROLE OF REMODELING

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 **(Figure 11).** Growth in RFI helped to lift real GDP in all four quarters, adding 0.3 percentage point to gains for the year. Given that real GDP expanded just 2.2 percent in 2012, RFI's contribution amounted to a healthy 12 percent of the total increase in the economy.

All three major categories of residential investment made headway last year. Multifamily construction spending, while making up only 8 percent of the total, grew the most in 2012—up 42 percent from 2011 levels. Single-family construction spending increased much more modestly, but accounted for 47 percent of overall RFI growth in 2012. Much of the strength also came from homeowner improvement spending, which 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.

After a mild start, improvement spending accelerated in the second half of 2012 and ended the year up 7.3 percent. Since many owners draw on their home equity to finance major projects, the remodeling market may have benefited from the slight uptick in home equity loans and cash-out refinances in 2012. Going forward, the Joint Center's Leading Indicator of Remodeling Activity points to a continuation of this strong momentum through 2013 as improvements in the housing and job markets give owners more confidence to make substantial investments in their homes.

THE OUTLOOK

After several years as a drag on the economy, the housing sector contributed positively to GDP in 2012. The rebound in sales drove down inventories of homes on the market to near-record lows, spurring new construction and strengthening home prices in metropolitan areas across the nation. But even with these gains, real spending on single-family construction, the largest component of residential investment, remained deeply depressed in 2012. Since starts have such a long way to go to reach normal levels, the housing sector has plenty of room to improve on last year's contribution to economic growth. However, a sudden rebound in demand to more normal levels, combined with continued growth in multifamily construction, could challenge the capacity of homebuilders and materials suppliers to ramp up quickly.

Given the depth of the housing market downturn, several challenges to a strong and sustainable recovery remain. Demand is closely linked with jobs and incomes, which are taking longer to rebound than in any previous cycle. While trending downward, the numbers of underwater homeowners, seriously delinquent loans, and excess vacancies are still in the millions. It will take several years for market conditions to return to normal. Until then, the housing recovery is likely to unfold at a moderate pace.

3 Demographic Drivers

The pace of household growth—a key driver of housing demand—accelerated in 2012, boosted in part by an increase in immigration. At the same time, though, the lingering impacts of the Great Recession continue to limit household mobility and therefore housing turnover. Income growth also remains weak, especially among minorities and the youngest generation of adults. Given the important role that these groups play in housing markets, improvement in their economic progress would provide a strong lift to the recovery.

HOUSEHOLD GROWTH ON THE UPSWING

Household growth emerged as a bright spot for housing in 2012. Indeed, annual household growth approached the 1.0 million mark for the first time since before the Great Recession. According to the Housing Vacancy Survey, the number of households increased by 980,000—up significantly from the 634,000 increase a year earlier. The Current Population Survey reports even stronger growth of more than 1.0 million.

At a basic level, changes in the number of adults and the rates at which adults head independent households determine household growth. On the plus side, the number of adults aged 18 and older rose by 18.1 million from 2005 to 2012 and fully 2.4 million in the past year alone. The echo-boom generation (born after 1985) fueled much of this growth, helping to boost the number of adults in their mid-20s—the group most likely to form new households.

But while the young adult population has been growing, the rate at which members of this age group head their own households has declined. As a result, household growth has not kept pace with population growth **(Figure 12).** Going forward, though, even if today's low household formation rates persist, the aging of the large echo-boom cohort into their 30s will raise household headship rates because of lifecycle effects. Indeed, one out of every two 30–34 year-olds heads an independent household, compared with just one in four 20–24 year-olds. Since household headship rates continue to rise (albeit more slowly) through older adulthood, the rates for the echo boomers will likely increase for years to come.

More immediately, however, household growth remains well below both historic norms and the Joint Center's projection of just under 1.2 million annually. If this projection is to hold, the pace of household growth will have to accelerate considerably to make up for the current slowdown.

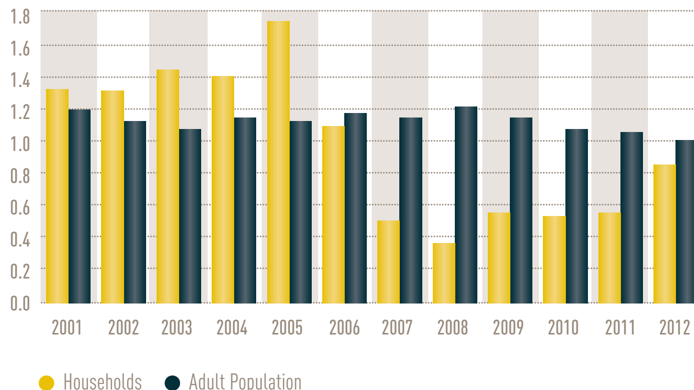
IMMIGRATION'S CONTRIBUTION

The foreign-born population has been a key component of household growth over the last decade, fueling large gains early in the decade but dragging down growth since the recession. According to Current Population Survey estimates,

FIGURE 12

Household Growth has Lagged Adult Population Growth Since the Downturn

Annual Growth Rate (Percent)

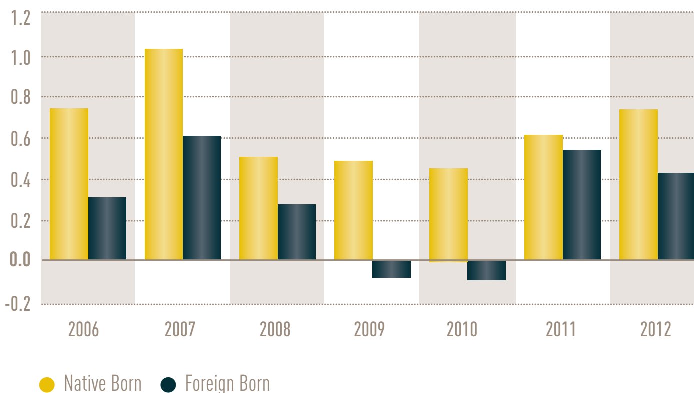


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Survey and Intercensal Population Estimates.

FIGURE 13

After Recent Declines, the Foreign Born Are Again Contributing to Household Growth

Household Growth (Millions)



Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

the number of foreign-born households rose nearly 400,000 annually in 2001–07 and accounted for 30 percent of overall household growth. But beginning in 2008, the influx of immigrants slowed sharply as the Great Recession took hold. High unemployment and tepid wage growth also reduced household formation rates among the foreign-born population already residing in the United States. By 2009 and 2010, the number of foreign-born households showed a net decline and the foreign-born contribution to household growth in 2007–10 fell to just 6.0 percent.

But with the US economy regaining strength, immigration may be poised for a rebound **(Figure 13).** Census Bureau estimates of net immigration in 2011–12 indicate an increase of 110,000 persons over the previous year, to a total of nearly 900,000. While still below levels that prevailed before the recession, this growth rate is more than 200,000 above the conservative assumptions underlying the Joint Center's 2010 low-immigration household projections. Slower growth of the foreign-born population, at least at present, does not appear to be a drag on overall household growth.

HOUSEHOLD MOBILITY ON THE DECLINE

The share of households that move in a given year is a fundamental driver of housing market activity, setting the pace of home sales and the turnover of rental housing. In line with long-term trends as well as the short-run impacts of the recession and housing bust, domestic mobility rates hit new lows in 2011. The American Community Survey reports that just 13.0 percent of households moved within the United States during the preceding 12 months, down from 13.2 percent the year before and 13.8 percent in 2007 (prior to the recession).

While mobility rates have fallen for nearly all household types, the decline was particularly steep for homeowners that have mortgages. Mobility rates for this group fell from 7.1 percent in 2007 to only 4.9 percent in 2011. The reasons for this short-term drop are numerous and include the lock-in effect of home price declines, falling incomes, fewer new employment opportunities, and tightened credit standards making it more difficult to qualify for a new mortgage.

Mobility rates are highest among renters and young adults. In 2011, fully 28.8 percent of renter households changed residences, compared with just 4.4 percent of homeowners. Young householders are also more mobile, with rates at 52.7 percent for those under age 25—significantly higher than the 19.7 percent for household heads in the next older age group.

In 2011, more than 4.6 million households headed by adults aged 25–34 changed residence within the previous 12 months. By comparison, just 1.5 million households aged 55–64 moved in that year. The oldest echo boomers are just beginning to swell the ranks of young adult movers. Having more young adults in the population may thus change the composition of housing demand in the coming years, given that younger households are more likely than older households to move into rentals (82 percent vs. 67 percent) and less likely to move into single-family homes (42 percent vs. 50 percent).

HOME EQUITY AND WEALTH DISPARITIES

The rebound in home prices in 2012 was welcome news to homeowners, helping to restore some of their lost housing wealth. The increase in equity was also good news for the economy, because consumer spending tends to rise with gains

in housing wealth. With home equity once again expanding, this trend should thus give further momentum to economic growth.

The recession-induced drop in home values has been especially damaging to minority and low-income 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. Moreover, white homeowners still had $166,800 in home equity on average in 2010—about twice the amount that blacks and Hispanics held.

The disproportionate decline in housing wealth among minorities served to widen the wealth gap. 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 an Hispanic homeowner. For owners and renters combined, the median net household wealth of whites was more than 7.9 times that of blacks, 8.2 times that of Hispanics, and 6.5 times that of all minorities combined.

Despite significant losses in recent years, home equity continues to represent a disproportionate share of wealth for both low-income and minority homeowners **(Figure 14).** In 2010, typical homeowners in the bottom income quartile held 78 percent of their net wealth in home equity, while those in the top income quartile held 26 percent. The differences by race and ethnicity were nearly as large, with home equity accounting for 62 percent of net wealth for the median black owner and 67 percent for the median Hispanic owner, but only 38 percent for the median white homeowner. The continued importance of housing wealth for minorities and low-income households highlights the fact that these groups have few other meaningful avenues for wealth accumulation.

Indeed, most renters have little wealth of any kind. The real median net worth among renters in 2010 was $5,100, essentially unchanged from $5,300 in 2007. Minority renters have particularly low levels of wealth: the median in 2010 was just $2,100 for black renters and $4,500 for Hispanic renters, substantially less than the $6,000 for white renters. Moreover, cash savings account for little of this net worth (less than $1,000), leaving all of these renters without much cushion against emergencies, let alone funds for a downpayment on a home.

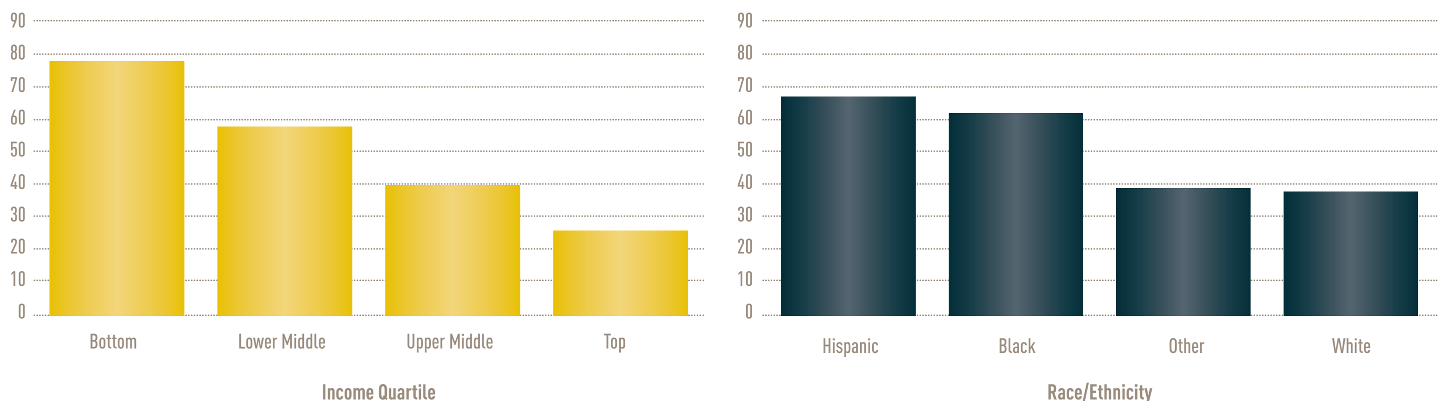
Home equity can accumulate into a substantial nest-egg for retirement, helping to reduce housing costs and providing a resource to meet high medical costs near the end of life. However, older Americans are carrying more mortgage debt later into life, potentially eroding the benefits of long-term ownership. In 1989, the median loan-to-value ratio among owners aged 50–59 was 10 percent; by 2010, it had risen to 38 percent. Over this same period, the share of owners aged 60–69 with mortgage debt rose from 32 percent to 60 percent.

For today's younger households, student loan debt may make the transition to homeownership more difficult. According to the Federal Reserve Bank of New York, the number of young adults under age 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. However,

FIGURE 14

Low-Income and Minority Households Rely on Home Equity for a Much Greater Share of Their Wealth

Median Housing Wealth as a Share of Household Net Worth (Percent)



Notes: Data exclude renters and households with zero or negative income. Income quartiles are equal fourths of all households ranked by income. White, black, and other households are non-Hispanic; Hispanic households can be of any race.
Source: JCHS tabulations of Federal Reserve Board, 2010 Survey of Consumer Finances.

concerns over rising student loan debt often overlook the fact that the trend also affects older households. The increase 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. Moreover, of the $600 billion increase in student loans outstanding in 2005–12, fully 38 percent was among households over age 40. Since many of these older households already own homes, the sharp rise in student loan debt could affect their ability to meet their mortgage obligations.

STAGNANT INCOMES

A key factor in the relatively modest housing recovery is the persistent weakness in incomes, which has slowed household growth and limited how much people can pay to rent or buy homes. At last measure in 2011, median household income fell another 1.5 percent in real terms to stand 8.1 percent below the 2007 peak and 6.7 percent below the 2001 level. With the exception of seniors aged 65 and over, median household incomes fell across all age groups in 2010–11, with the sharpest drop among younger households.

The magnitude of the decline also varies by race and ethnicity **(Figure 15).** While real incomes for all groups fell over the last ten years, the median for black households was down the most (12 percent)—twice as much as the median for white households. By 2011, the real median income for black households had slipped to $32,000, its lowest level since 1994.

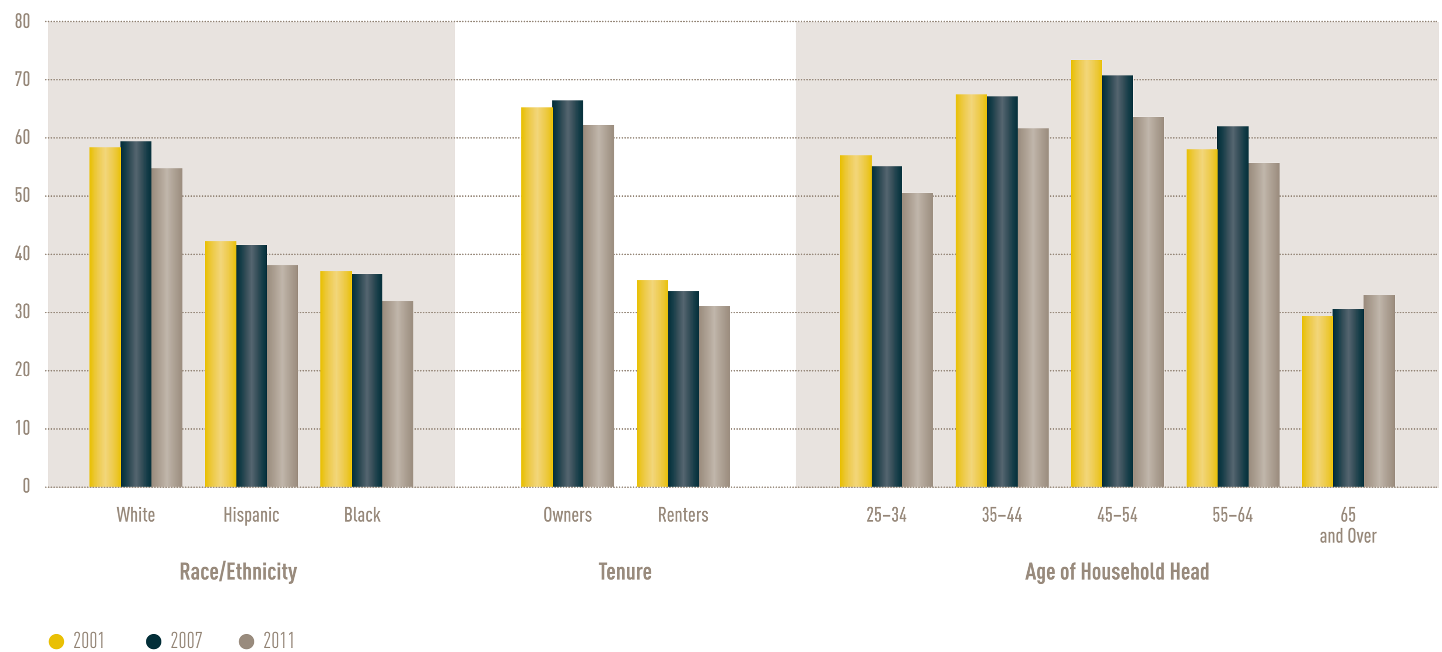
To put these trends in perspective, incomes among households under age 35 are back to 1990s levels. The recession had an even bigger impact on households between the ages of 35 and 54, whose incomes are now lower than those of similarly aged households in 1971. Now in what are typically the peak earning years, 45–54 year-olds have instead seen their real median incomes fall 6.0 percent from what they made ten years earlier (when they were aged 35–44). Over the next ten years, these households will be approaching typical retirement age, but the loss of income at such a critical point in their careers will make it difficult for many to save enough to stop working.

While rents have moved up in recent years, there are limits to how much they can rise without an increase in households' ability to pay. In addition, weak income growth has no doubt had an impact on the recovery in homeownership, limiting the ability of would-be buyers to take advantage of historically low costs of owning. While the economy continues to add jobs

FIGURE 15

Most Types of Households Have Seen Their Real Incomes Decline over the Past Decade

Median Household Income (Thousands of 2011 dollars)



Note: Dollar values are adjusted for inflation by the CPI-U for All Items.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

steadily, albeit slowly, the unemployment rate remains well above what is needed to put upward pressure on wages.

HOUSEHOLD GROWTH PROJECTIONS

The growth and aging of the existing US population will drive much of the increase in households over the next decade. Assuming no change in the foreign-born population and a continuation of today's low household formation rates, demographic forces alone imply the addition of about 1.0 million new households per year. Taking into account the boost from a modest increase in immigration, the latest Joint Center projections indicate that household growth should average 1.16 million in the decade leading up to 2020. Preliminary estimates using the Census Bureau's 2012 population projections suggest even stronger growth in net new households of 1.28 million between now and 2020.

With the baby-boom population moving into the 65-and-over age group, the number of senior households will surge in 2013–23 **(Figure 16)**. These older households are projected to increase by fully 9.8 million. While most of this growth simply reflects the aging of existing households and not new household formations, it does herald a significant shift in the nature of demand for housing and home improvements.

The characteristics of the typical US household are also changing. Immigrants (who usually arrive in this country in their 20s and 30s) have helped to increase the diversity of the population since the 1980s. The children of older immigrants are now adding to the echo-boom population (aged 15–24 in 2010), lifting the minority share of this generation to a record 43.4 percent. As a result, the number of minority households will grow by 8.7 million over the next ten years.

THE OUTLOOK

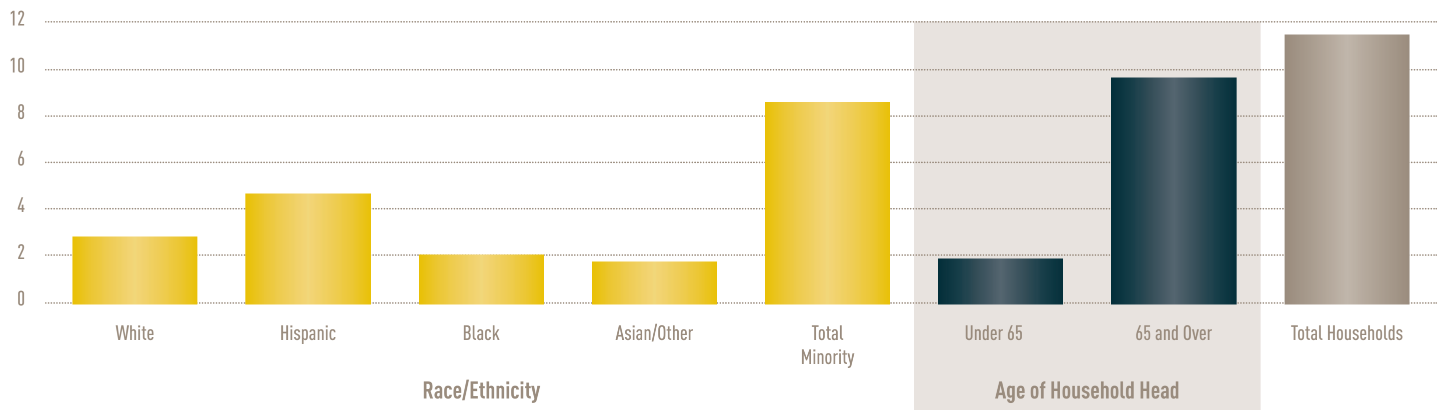
The growing diversity of American households has important implications for housing markets and housing policy alike. Over the next decade, minorities will make up an increasing share of young households and represent an important source of demand for both rental housing and starter homes. While their housing aspirations are similar to those of whites, minorities face greater constraints in pursuing those goals because of their lower incomes and wealth. Pending reforms to the housing finance system include proposals to raise downpayment requirements in a move to reduce mortgage lending risk. In evaluating whether to take this course, policymakers must consider whether further limiting access to mortgage finance for future generations of young households is necessary to achieve the desired reduction in systemic risk.

The aging of the population poses a different policy challenge. Most seniors prefer to age in place. While many of these households are currently well housed, their needs will change over time. Meeting those needs will require modifications to existing homes, the expansion of transportation networks and supportive services, and additions to the housing stock aimed specifically at the senior population. Many older Americans are also heading into their retirement years with little financial cushion and may find it difficult to find suitable housing that fits within their budgets. Expanding the range of housing options available to the country's growing senior population will require concerted efforts from both the public and private sectors.

FIGURE 16

Minorities and Seniors Will Drive Household Growth Over the Next Decade

Projected Household Growth, 2013–23 (Millions)



Notes: White, black, and Asian/other households are non-Hispanic. Hispanics can be of any race. JCHS low-series projections assume immigration is 50% of the levels in the Census Bureau's 2008 middle-series population projections.
Source: JCHS 2010 low-series household growth projections.

4 Homeownership

After years of decline, both homeownership rates and the number of owner households turned down again in 2012. Minority homeownership rates fell even further than white rates, widening the white-minority gap. But some good news emerged during the year as foreclosure rates fell. In addition, low interest rates and depressed house prices made monthly mortgage payments for homebuyers more affordable than in 40 years, although access to credit remains a concern for all but the best-positioned borrowers.

HOMEOWNERSHIP TRENDS

According to the Housing Vacancy Survey (HVS), the US homeownership rate fell 0.7 percentage point from 2011 to 2012, to 65.4 percent, and then continued to trend down in the first quarter of 2013 to 65.0 percent **(Figure 17).** These declines extend an eight-year drop in homeownership rates. This also marked six years of declines in the number of homeowners, which has fallen by a total of 1.2 million since 2006.

The rollback in homeownership rates has hit some groups harder than others. On the one hand, homeownership rates for households aged 65 and over continued to increase in 2012, rising to the highest level on record. With older households making up a larger share of the adult population (thanks to the aging of the baby boom), the high homeownership rates among older households helped to slow the decline in the national rate. But on the other hand, homeownership rates for households in the 25–54 year-old age group were at their lowest point since recordkeeping began in 1976.

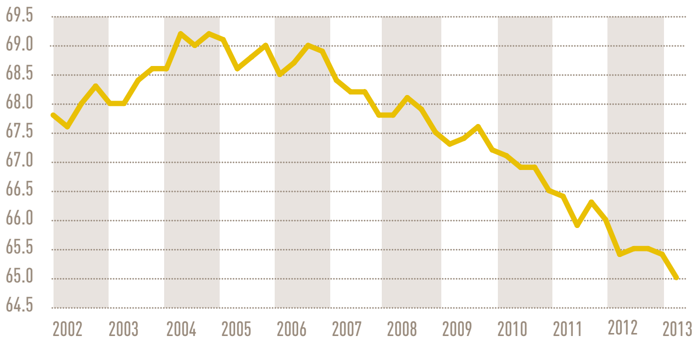
The drop in homeownership rates has also been particularly severe among minorities. At 43.9 percent, the homeownership rate for African-American households is at its lowest level since 1995. Both the Hispanic homeownership rate (46.0 percent) and the white homeownership rate (73.5 percent) are at their lowest values in a decade. Since their peaks, homeownership rates have fallen just 2.7 percentage points among whites, but 5.8 percentage points among blacks and 3.3 percentage points among Hispanics. As a result, the Hispanic-white gap has widened and the black-white gap has reached historic proportions.

Across household types, the largest drop in homeownership rates was among families with children. From 2005 to 2012, the rate for married couples with children dropped 7.0 percentage points, to 72.6 percent, while that for single-parent families fell 5.8 percentage points, to 35.6 percent. With these losses, their rates are 2.9 percentage points and 1.7 percentage points, respectively, below their long-run averages. Declines were less severe for married couples without children, single persons, and non-families. Rates for these groups remain above their historical averages, reflecting in large part the high shares of seniors within these household types.

FIGURE 17

The US Homeownership Rate Edged Down Again in 2012...

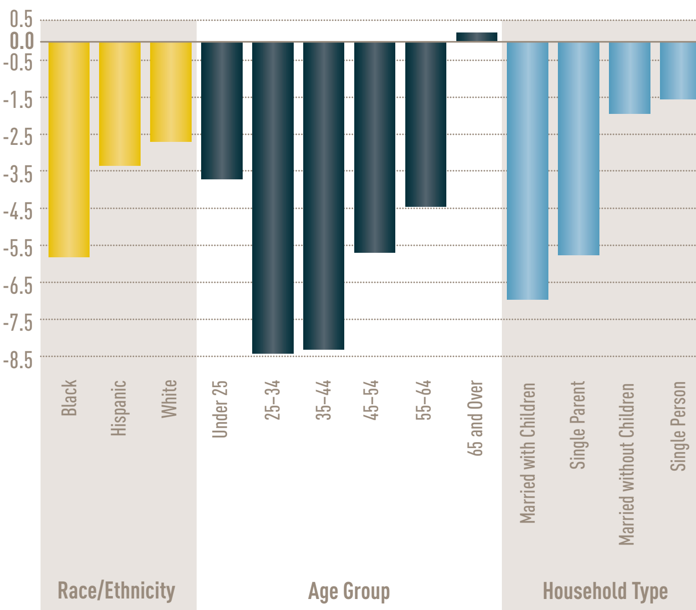
Homeownership Rate (Percent)



Source: US Census Bureau, Housing Vacancy Surveys.

...With Seniors the Only Group to Avoid Declines

Change in Homeownership Rate, 2005–12 (Percentage points)



Note: White and black households are non-Hispanic; Hispanic households can be of any race.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

HISTORICALLY LOW INTEREST RATES

Several conditions may help to firm the national homeownership rate over the coming year, including steady employment growth and a turnaround in home prices. But the continuation of mortgage interest rates near record lows could also help. Interest rates on 30-year fixed-rate mortgages dropped from an already low 4.45 percent in 2011 to an average of 3.66 percent in 2012—the lowest annual average since 1972. As of March 2013, mortgage interest rates had dipped further, to 3.57 percent.

At least for those able to qualify, low interest rates have made mortgage payments on the typically priced home more affordable than at any time in the last four decades. The NAR affordability index reflects the ratio of median family income to the income required to qualify for the median-priced home, assuming a 20-percent downpayment and that a maximum of 25 percent of income is spent on monthly mortgage payments. The index approached 200 in 2012, implying that the median household could afford nearly twice the monthly payment on a median-priced home **(Figure 18).** The measure for first-time homebuyers assumes a house price of 85 percent of the median, an income of 65 percent of the median, and a 10-percent downpayment. This index—which never exceeded a value of 100 in its nearly 30-year history until 2009—stood at 129 in 2012.

The degree of affordability is perhaps even more striking when out-of-pocket mortgage costs are considered. Again 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. This compares with a peak of $1,266 in 2006, when interest rates were at 6.4 percent and home prices were substantially higher.

Even as home prices increased last year in most metros, the gains were not enough to offset the improvement in affordability created by lower interest rates. Indeed, home prices had to rise by at least 10 percent to drive monthly payments higher year-over-year. Thus, monthly payments for a newly purchased median-priced home declined in 80 percent of the metros where home prices had increased in 2012. But in places like Phoenix, rapid appreciation pushed monthly payments on the median-priced home up by 13.3 percent. In San Francisco and Miami, a more moderate 11.9 percent rise in prices meant a 1.7 percent increase in mortgage payments.

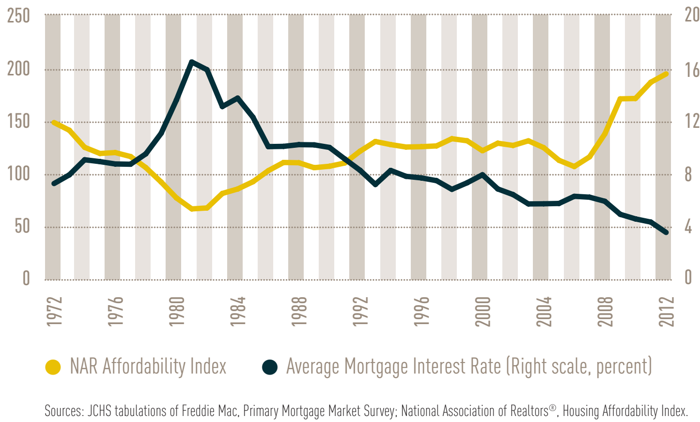
Even after rapid price appreciation, however, the median payment to median income ratio in Phoenix was still just 12.4 percent in 2012, well below the 14.6 percent national ratio. Indeed, only four metros—San Diego, San Francisco, San Jose, and Honolulu—had median payment to median income ratios above 25 percent. Other areas such as Boston, New York, and Los Angeles, where the cost of owning the median-priced home has long been out of reach for median-income households, the ratios were below 25 percent though still well above the national average.

REFINANCING SURGE

The drop in interest rates spurred refinancing activity last year. According to estimates from FHFA, refinancing volumes soared 42 percent in nominal terms to $1.4 trillion in 2012, the highest level since 2006. With little change in the volume of purchase

FIGURE 18

Low Mortgage Interest Rates Helped to Lift Affordability to a Record High in 2012

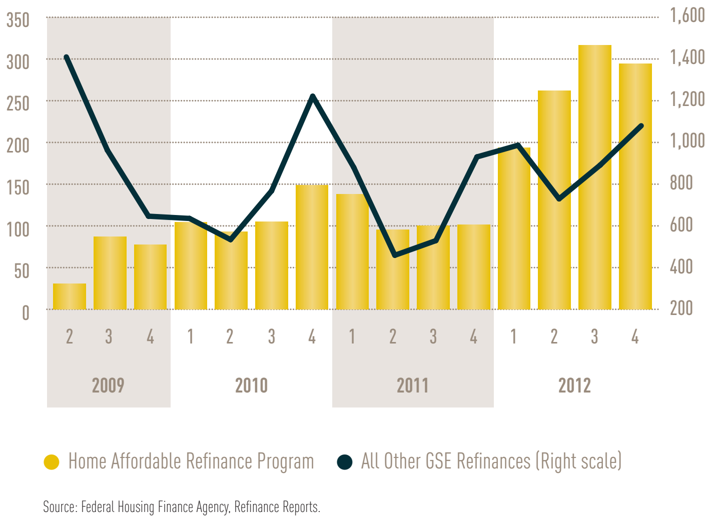


Sources: JCHS tabulations of Freddie Mac, Primary Mortgage Market Survey; National Association of Realtors®, Housing Affordability Index.

FIGURE 19

Changes to HARP Refinancing Requirements Led to a Surge in Activity in 2012

Number of Loans Refinanced (Thousands)



Source: Federal Housing Finance Agency, Refinance Reports.

mortgages, refinances accounted for 72 percent of annual mortgage originations.

For borrowers able to refinance, the savings were often significant. Freddie Mac estimates that the average interest-rate reduction for those who refinanced in the fourth quarter of 2012 was 1.8 percentage points, implying a record 33-percent drop in interest costs for those borrowers. In the first year alone, this translates into a savings of about $1,800 in interest payments for every $100,000 borrowed. In addition, only 17 percent of homeowners who refinanced in 2012 took cash out—the lowest share in records dating back to 1985. These homeowners took a total of $29.1 billion in equity out of their homes, well below levels in the mid-2000s when owners took out $84 billion in the second quarter of 2006 alone. Indeed, cash-in refinances were more prevalent than cash-out refinances in 2012, with fully 28 percent of refinancings resulting in lower loan amounts.

Changes in the Home Affordable Refinance Program (HARP) helped to fuel refinancing activity. Launched in 2009, HARP enabled borrowers with loans guaranteed by Fannie Mae and Freddie Mac to refinance to lower interest rates even if their homes were worth less than their outstanding mortgages. After a tepid initial response to the program, FHFA expanded the eligibility criteria (including removing limits on loan-to-value ratios or LTVs), reduced fees, and provided safeguards to shield loan originators from potential defaults. With these changes and the low prevailing interest rates, HARP loan volumes more than doubled in 2012, to 1.1 million, and made up more than one in five (22.6 percent) of all loans refinanced by the GSEs during the year **(Figure 19).** Although HARP has made refinancing available to underwater borrowers with GSE-backed loans, millions of similar borrowers with non-GSE-backed loans have not had the same opportunity.

CONTINUING CREDIT CONSTRAINTS

Access to credit remained limited in 2012. The sharp rise in average credit scores for loans guaranteed by the GSEs and FHA is a telling sign. 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 large measure, this trend reflects the evaporation of loans to borrowers with weaker credit histories. In 2007, borrowers with credit scores below 620 accounted for 45 percent of FHA loans. By the end of 2012, that share was under 5 percent.

But even borrowers with relatively high scores faced challenges. Ellie Mae reports that the average credit scores of conventional mortgage applicants denied credit in the first quarter of 2013 were 722 for refinances and 729 for purchases. Given that average LTV ratios for both groups of applicants were just above 80 percent, borrowers had substantial equity to put down—just not enough to avoid having to buy mortgage insurance. On average, borrowers denied loans also had somewhat elevated debt-to-income ratios (41 percent vs. 33 percent among closed loans for home purchase).

Low-income and minority borrowers are particularly likely to be denied conventional loans **(Figure 20).** Home Mortgage Disclosure Act data reveal that denial rates in 2011 were 33.8 percent for those with incomes below 50 percent of AMI and 21.0 percent for those with incomes of 50–79 percent of AMI. By comparison, denial rates for households with incomes of

at least 120 percent of AMI were only 10.7 percent. Rates for African-American borrowers were at 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. Lower-income applicants and minority borrowers also faced somewhat higher denial rates for FHA loans than whites, but generally lower denial rates for FHA than conventional loans.

And those fortunate enough to qualify for mortgages often had to pay costs that exceeded headline interest rates. In the aftermath of the financial market crisis, both FHA and FHFA, the conservator of Fannie Mae and Freddie Mac, raised various fees to adequately price risk, cover losses, and shrink market share. As a result, all but the most creditworthy borrowers face higher interest rates today than what is considered the prevailing rate.

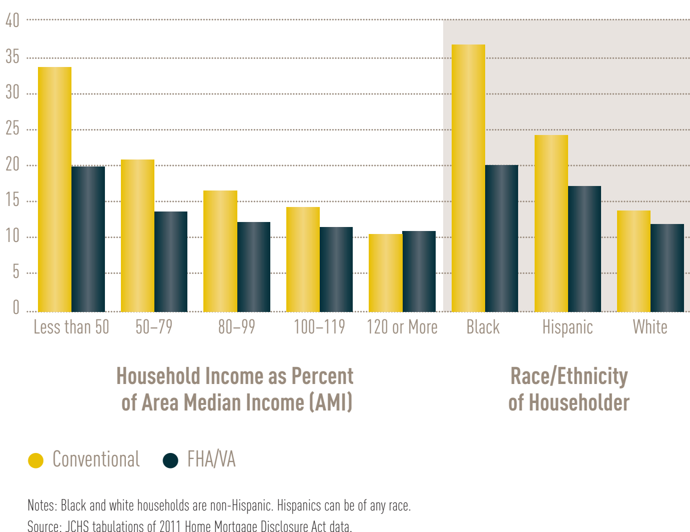
Part of the intent of higher premiums for FHA loans is to encourage the return of private capital to the housing market, but borrowers who cannot meet conventional underwriting standards have little choice but to pay these higher costs. Other options available to credit-constrained borrowers are programs offered by state housing finance agencies and a variety of nonprofit lenders that allow higher LTVs and flexible underwriting, but these programs remain fairly small in scale.

Despite efforts to entice private capital into the mortgage market, the GSEs and FHA continue to back the vast majority of loans **(Figure 21).** In 2001, loans securitized into private-label securities or held in bank portfolios accounted for nearly half of loan originations. Their market share rose to about two-thirds at the height of the housing boom before retreating to the low single-digits. Beginning in 2009, government-backed loans have accounted for roughly 90 percent of all originations. While the private securities market was still moribund in 2012, portfolio lending by banks showed its first substantial increase

FIGURE 20

Low-Income and Minority Households Are Much More Likely to Be Denied Mortgages

Denial Rate on Applications for Home Purchase Mortgages in 2011 (Percent)



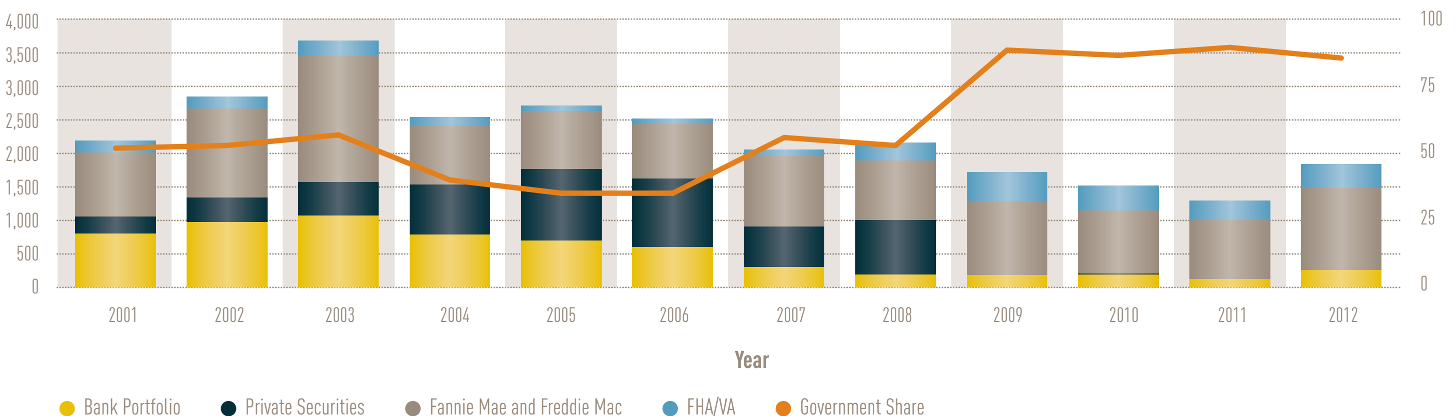
Notes: Black and white households are non-Hispanic. Hispanics can be of any race.
Source: JCHS tabulations of 2011 Home Mortgage Disclosure Act data.

FIGURE 21

The Government Continues to Have an Outsized Footprint in the Mortgage Market

Mortgage Originations (Billions of dollars)

Government Share of Originations (Percent)



Source: Amherst Securities Group LP.

in years (albeit to a modest level), bringing the government share down slightly.

PERSISTENT MORTGAGE DISTRESS

The foreclosure crisis is finally receding. 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. The majority of the decline is due to the drop in the share of seriously delinquent loans (with payments 90 or more days overdue). Meanwhile, the share of loans 30-days delinquent was not far above the pre-crisis average. Although still elevated, 60-day delinquency rates were down 36 percent from the peak.

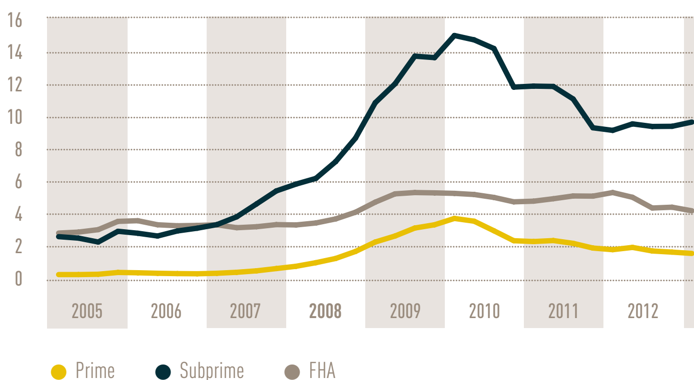
Delinquencies fell across all loan types **(Figure 22).** The serious delinquency rate for prime loans, which make up the largest share of past-due mortgages, declined from 1.8 percent in the first quarter of 2012 to 1.6 percent in the first quarter of 2013. At the same time, the serious delinquency rate for FHA loans declined from 5.3 percent to 4.2 percent—a 16 percent drop. Although down in 2012, the rate of serious delinquencies in the subprime market increased in the first quarter of 2013.

It is clearly too early to declare an end to the crisis given the substantial backlog of homes in the foreclosure pipeline. More than 1.4 million homes were in foreclosure—3.6 percent of all mortgages in service—in the first quarter of 2013. This share is nearly five times the 1974–99 average of 0.8 percent. However, the number of loans in foreclosure fell 23 percent over the previous four quarters, a significant improvement from the 5 percent decline in the same period a year earlier. As of early 2013, the foreclosure inventory was back to 2008 levels and nearly 30 percent below the 2010 peak.

FIGURE 22

Delinquency Rates Have Fallen Across the Board, But Remain Well Above Pre-Crisis Levels

Share of Loans at Least 90 Days Delinquent (Percent)



Notes: Data are seasonally adjusted. Delinquencies do not include loans in foreclosure.
Source: JCHS tabulations of Mortgage Bankers Association, National Delinquency Survey.

Most of the country shared in this progress, although inventories in states that process foreclosures through the courts remained relatively high. The inventory in judicial foreclosure states fell just 11.9 percent between the fourth quarters of 2011 and 2012, compared with 26.2 percent in non-judicial states. In addition, the share of homes in foreclosure was a full 4.0 percentage points higher in judicial than in non-judicial states.

Despite concerns that there would be a surge in proceedings following announcement of the National Mortgage Settlement in March, foreclosure starts in fact trended down throughout the year. By the end of 2012, the number of foreclosures stood at 1.49 million—the lowest annual total since 2007. The pace of foreclosure starts continued to slow in early 2013, dipping to a 1.15 million annual rate in the first quarter.

THE OUTLOOK

As the housing market stabilizes and consumer confidence continues to rise, attitudes toward homeownership as a short-run goal are improving. Indeed, 72 percent of respondents to the latest Fannie Mae survey believed that it was a good time to buy, including 61 percent of renters. The urgency to act may be increasing, with the share of households believing that home prices would rise over the coming year climbing from 26 percent in December 2011 to 43 percent in December 2012.

Although affordability is at a 40-year high, tight credit markets remain a challenge for would-be buyers. The emerging rebound in housing prices, coupled with steady job growth, may restore lender confidence that borrowers will be able to repay their loans and that the value of the collateral will exceed the debt if problems arise. But private lending activity is unlikely to accelerate for some time. The release in early 2013 of the qualified mortgage rule, defining standards for a borrower's ability to pay, helped to remove one source of uncertainty. Still unknown, however, are risk retention standards for private loan securitizers and new capital standards for institutions holding mortgage-related investments under the Basel III Accord. The future of the GSEs is also on the table, along with what form—if any—a broad federal guarantee in the mortgage market might take. All of these decisions affect the risks and returns of private investors, and the lingering uncertainty continues to slow their return to the market.

At issue is whether, and at what cost, mortgage financing will be available to borrowers across a broad spectrum of incomes, wealth, and credit histories. Minorities, with generally lower income and wealth levels than their white counterparts, will make up an increasing share of young households over the next decade. The extent of access to mortgage credit for this growing market segment will have important implications both for the housing market and for the ability of many households to move into homeownership.

5 Rental Housing

Rental housing markets experienced another strong year in 2012, with the number of renter households rising by over 1.1 million and marking a decade of unprecedented growth. New construction and conversions of formerly owner-occupied single-family units into rentals also picked up. Robust demand has reduced vacancy rates and supported higher rents in most markets—in turn, improving the balance sheets of property owners and helping to limit multifamily mortgage delinquencies.

STRENGTHENING RENTER DEMAND

The Housing Vacancy Survey reports that the number of renter households increased by more than 1.1 million in 2011–12, the eighth consecutive year of expansion and yet another year when renters accounted for all net household growth. The million-plus annual increases in the last two years put growth in the current decade on pace to easily surpass the record 5.1 million gain in the 2000s **(Figure 23).** While this rapid growth may not be sustainable, it attests to the unprecedented strength of rental demand.

As of early 2013, renters made up 35 percent of all households. Relative to owner households, renters are more likely to be young, low-income, and minority, and are also more likely to be single-person households. The median age for renters is 40, compared with 54 for owners. Their median household income was $31,200 at last measure in 2011, almost exactly half that of owners. The minority share of renters is 47 percent, more than twice the homeowner share of 22 percent. Finally, 37 percent of renters are single-person households, a much larger share than the 23 percent of owner-occupants.

Even so, the recent surge in rental demand has not been confined to just these groups. Although renters are still younger than homeowners on average, net renter growth over the past decade has been strongest among older households. Between 2002 and 2012, the aging of the trailing edge of the baby-boom generation reduced the total number of households aged 35–44 by 12 percent, but the number of renter households in this age range increased by 8 percent. Among 45–54 year-olds, growth in the number of renters was more than three times that of total households in that age range. And among 55–64 year-olds, the number of renter households increased fully 80 percent while the total number of households rose just 50 percent.

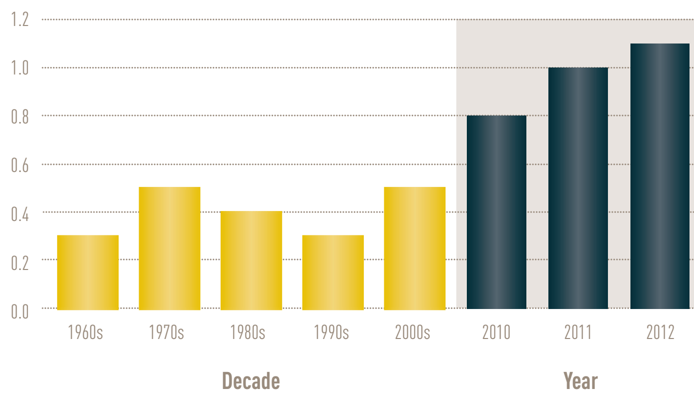
In addition, married couples with children—a family type with traditionally high homeownership rates—have contributed an increasing share of renter household growth over the last five years. Meanwhile, households in a broader range of income groups have also become renters. In fact, after having declined sharply during the boom, nearly a third of the growth in renter households in 2007–12 was among households in the top two

income quintiles. Finally, although minorities still account for a disproportionate share of renter growth, the racial/ethnic split has become more even. These trends suggest that, more than ever, the renter population mirrors the diversity of the nation's households.

FIGURE 23

Renter Household Growth in the 2010s Is Already Surpassing the Record Pace Set in the 2000s

Average Annual Growth in Renter Households (Millions)



Source: JCHS tabulations of US Census Bureau, Decennial Censuses and Housing Vacancy Surveys.

TIGHTENING RENTAL CONDITIONS

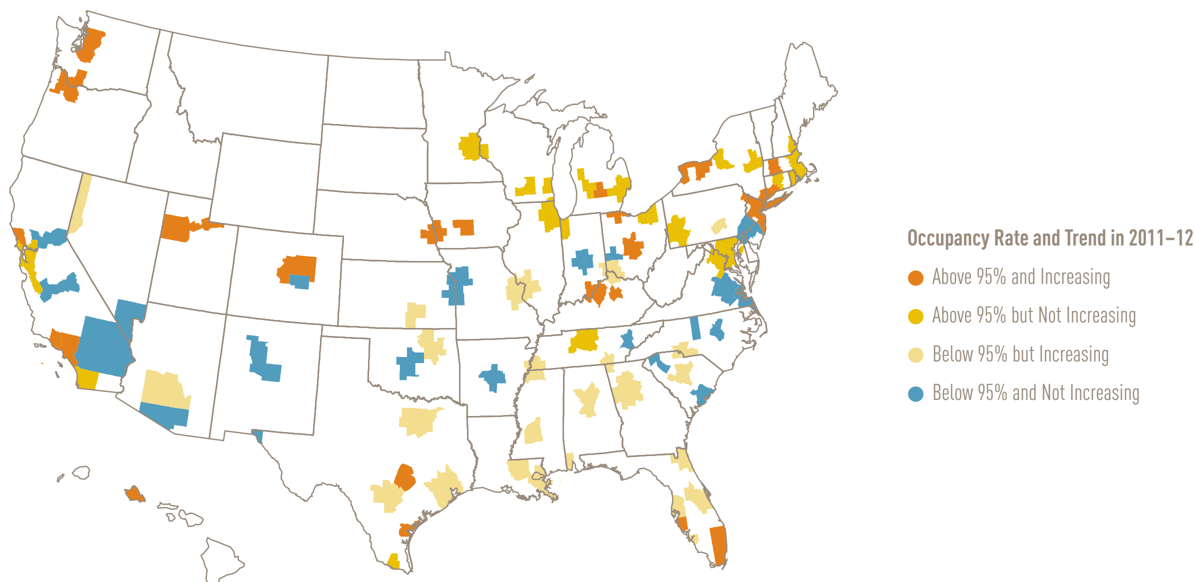
Rental markets across the country are tightening, pushing up rents at the national level and across a majority of markets. The HVS median asking rent for vacant units in 2012 stood at $720, the highest level in US history, and the uptrend continued in early 2013. The consumer price index for rent of primary residence rose by 2.7 percent in nominal terms from April 2012 to April 2013, outpacing overall inflation of 1.1 percent. As of that month, the index had been on the rise for 34 consecutive months, with year-over-year increases at or exceeding 2.5 percent for 15. More limited data from MPF Research—covering rents for professionally managed buildings with five or more units, adjusted for concessions—indicate that nationwide rents were up 3.0 percent on average in the fourth quarter of 2012 from a year earlier.

Rents in most markets are on the rise. Fully 89 of the 93 metro areas tracked by MPF Research saw rents climb over the past year. In nine of these areas, the increases were at least 5.0 percent. Metros with the largest rent hikes include high-cost markets such as Honolulu (8.5 percent), San Francisco (8.0 percent), and San Jose (7.7 percent). Only four areas reported declines: Las Vegas (-1.7 percent), Greensboro (-0.9 percent), Tucson (-0.3 percent), and Albuquerque (-0.2 percent).

Alongside rising rents, rental vacancy rates continued to drop over the past year both nationwide and in most metros **(Figure 24).** The US rental vacancy rate stood at 8.7 percent in 2012, down

FIGURE 24

Rental Markets in Most Large Metro Areas Are Tight or Tightening



Notes: Estimates are based on a sample of investment-grade properties for 93 metropolitan areas. Changes are measured fourth-quarter to fourth-quarter. Tightening is defined as an increase in the rental occupancy rate in 2011–12.
Source: JCHS tabulations of MPF Research data.

from 9.5 percent in 2011 and 10.6 percent in 2009. While at its lowest level since 2001, the national rate was still elevated compared with the 7.6 percent averaged in the 1990s.

Across structure types, the steepest declines were among larger multifamily buildings, which had also posted the highest vacancy rates during the worst years of the housing bust. According to MPF Research, vacancies in professionally managed buildings with five or more apartments fell from a high of 7.9 percent in 2009 to just 4.9 percent in 2012—the lowest annual vacancy rate since 2007.

MULTIFAMILY PROPERTY AND LOAN PERFORMANCE

With vacancy rates falling and rents rising, rental property owners had another good year. The National Council of Real Estate Investment Fiduciaries estimates that net operating income (NOI) for institutionally owned apartments rose 6.1 percent over the course of 2012. While a slowdown from the 10.4 percent increase in 2011, NOI growth was still above the historical average and marked a significant improvement from the losses in 2009–10. Factoring in changes in property values, the annual return on investment for apartment owners averaged a solid 11.2 percent in 2012, within a percentage point of pre-downturn levels in the 2000s **(Figure 25).**

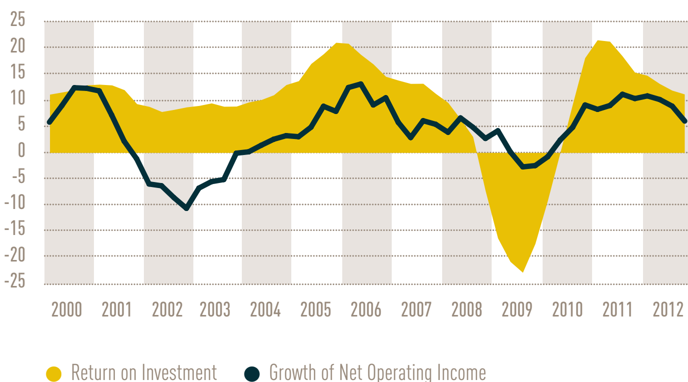
Improving cash flow and rising property values have also benefited multifamily loan performance. Among FDIC-insured banks and thrifts, the share of multifamily loans at least 90 days delinquent shrank from more than 4.0 percent in late 2009 to less than 2.0 percent by mid-2012. While multifamily mortgages owned or guaranteed by the GSEs held up well throughout the downturn, their performance also improved last year. Serious delinquency rates among Fannie Mae-backed loans dropped by more than half in 2012 alone, declining by 0.35 percentage point to 0.24 percent. Delinquency rates for Freddie Mac multifamily mortgages also declined, ending the year at a modest 0.19 percent.

The delinquency rate for apartment loans held in CMBS improved as well, edging down from 14.4 percent at the end of 2011 to 13.1 percent at the end of 2012 but still well above the historical average. The relatively high rate of delinquencies and slow recovery of multifamily CMBS loans reflect the fact that the CMBS delinquency rate includes loans on properties that are in foreclosure or are real estate owned, but other delinquency rates generally do not.

FIGURE 25

Rental Property Investments Continued to Generate Solid Returns in 2012

Annual Rate (Percent)



Notes: Data are for apartments. Net operating income is defined as gross rental income plus any other income less operating expenses. Annual rates are calculated across four quarters.
Source: JCHS tabulations of National Council of Real Estate Investment Fiduciaries (NCREIF) data.

EXPANDED MULTIFAMILY LENDING ACTIVITY

With production and sales activity ramping up, multifamily loan originations rose sharply in 2011–12 even as overall multifamily mortgage debt outstanding increased only modestly. According to the Mortgage Bankers Association, the annual dollar volume of multifamily loans originated was up 36 percent in 2012, with fourth-quarter originations fully 49 percent above the year-earlier volume. Meanwhile, total net amount of multifamily mortgage debt outstanding grew by just 2.0 percent in real terms, from $826.8 billion in 2011 to $845.7 billion in 2012. After adjusting for inflation, total debt outstanding in 2012 was only 0.2 percent below the 2009 peak of $847 billion and more than $265 billion (46 percent) above the 2002 level.

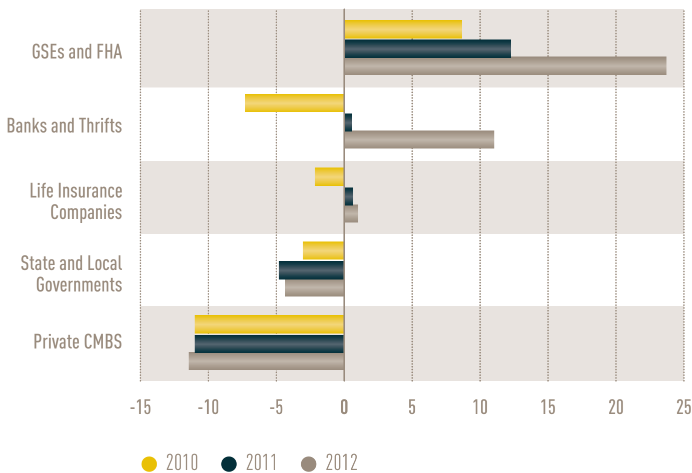
When other sources of capital exited in the wake of the financial crisis, Fannie Mae, Freddie Mac, and FHA/Ginnie Mae dramatically expanded their presence in the multifamily finance market, and they remain the primary players in that market today **(Figure 26).** Together these government agencies held or guaranteed 44.5 percent of all outstanding multifamily mortgage debt in 2012, with their debt outstanding up by $24 billion in real terms from 2011 to $376 billion. Still, other institutional sources of financing began to step up, with banks and thrifts increasing their multifamily loans by $11 billion in 2011–12. Life insurance companies and pension funds also raised their participation to $1.0 billion and $0.8 billion, respectively. Meanwhile, the real amount of outstanding loans held in CMBS dropped by $11.4 billion.

Although Fannie Mae and Freddie Mac both reported strong multifamily lending growth in 2012, with a combined $62.6 billion in new purchases and guarantees, the continued ramp-up in FHA-insured loans reduced Fannie and Freddie's share of the overall multifamily business from previous years. FHA moved from an annual level of new commitments of just over $2 billion in fiscal 2008 to $14.6 billion in fiscal 2012. In terms of the number of rental units financed, this jump translates into an increase from 48,000 in 2008 to more than 200,000 in 2012.

FIGURE 26

Federal Sources Continue to Dominate the Multifamily Market, Although Lending by Banks and Thrifts Has Picked Up

Change in Multifamily Loans Outstanding (Billions of 2012 dollars)



Note: Dollars are adjusted for inflation using the CPI-U for All Items.
Sources: JCHS tabulations of Mortgage Bankers Association, Quarterly Reports; US Federal Reserve Board, Flow of Funds Accounts of the United States; US Federal Deposit Insurance Corporation, Quarterly Banking Profile.

Consistent with efforts to reduce its footprint in the owner-occupied market, the federal government has announced plans to pull back from multifamily lending as well. The Federal Housing Finance Agency's stated goal is to reduce new multifamily lending by 10 percent in 2013 through a combination of higher prices, tighter underwriting, and more limited product offerings. FHA's fiscal 2013 budget also projects a decrease in new multifamily commitments in the coming year.

Scaling back the lending capacity of the GSEs and FHA raises concerns about future financing for affordable multifamily housing. Government-backed loans are an important source of long-term, fixed-rate financing that is particularly suited to assisted housing developments that need to lock in financing costs to match the term of affordability. As policymakers take steps to reduce the role of the GSEs and FHA in multifamily lending, it is important to bear in mind the key role these institutions play in the affordable segment of the market, as well as in underserved and weaker markets where capital outside of government channels is scarce. But with government resources also constrained, there is a need to look for innovative ways to fill these gaps. One such example is a risk-sharing effort between FHA and state and local housing finance agencies that has been used to finance more than 100,000 affordable rental units at a lower cost to the federal government.

ADDITIONS TO THE RENTAL STOCK

Construction of approximately 186,000 new rental units (including both multifamily and single-family) was completed in 2012, still well below annual averages in the 1990s and 2000s. But with starts of new rentals rising over the course of the year to about 258,000 units, completions should return to more normal levels **(Figure 27).** Most of these units will be in multifamily buildings. In fact, more than 90 percent of multifamily units started in 2012 were intended for rent. By comparison, up to 45 percent of new multifamily units started at the height of the housing boom were intended for sale.

Given the high cost of new construction, most of these units are well out of reach for the growing ranks of low-income renters. The typical new unsubsidized apartment completed in the third quarter of 2012 had an asking rent of $1,185. To afford such a unit at the 30-percent-of-income standard, a potential renter would need an annual income of more than $47,000.

Since 2007, however, conversions of single-family homes from the owner to the rental market have contributed significantly more than new construction to the expansion of the rental inventory. Indeed, tenure switching has not only provided much needed housing for the growing number of renters, but it has also helped to stabilize communities hard-hit by rising vacancies during the housing crash.

The American Housing Survey shows that conversions of single-family units alone added 1.4 million units on net to the rental stock between 2009 and 2011, on top of the 1.0 million net increase that occurred between 2007 and 2009. While single-family homes have always made up a significant share of the rental inventory, the shares of renters living in these units rose substantially from 30.8 percent in 2005 to 34.1 percent in 2011. As a result, renters now occupy nearly one out of every six single-family homes.

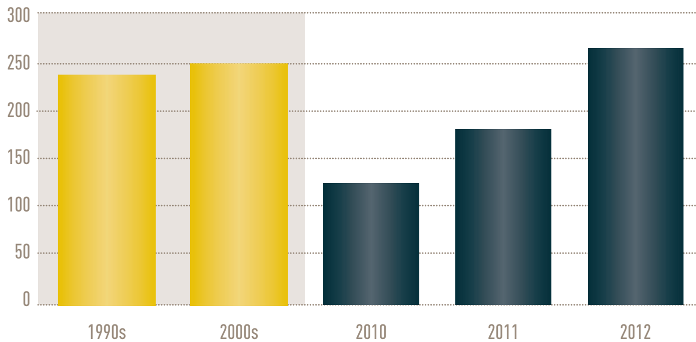
Small investors and local property owners continue to own the vast majority of the nearly 14 million single-family rentals nationwide. But since 2011, large investment pools have acquired single-family homes on an unprecedented scale with the intention of managing the properties as rentals. According to CoreLogic, institutional investors accounted for fully 30 percent of 2012 home sales in Miami and 23 percent in Phoenix. The largest of these investor groups have amassed portfolios of 10,000–20,000 single-family homes, many of them distressed properties concentrated in a few select markets.

A key issue for markets where investors have been most active relates to the longer-run impact on housing prices. For now, investors are earning returns from rents, but eventually they are likely to liquidate their real estate holdings when prices have recovered sufficiently. Over the past 12 months, prices of bottom-tier homes have already climbed sharply in several key metros including Atlanta (up 37 percent), Las Vegas (up 34

FIGURE 27

While Rental Housing Construction Has Rebounded to More Normal Levels ...

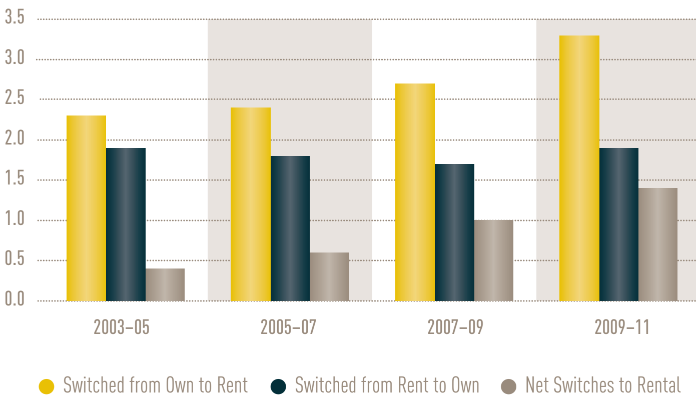
Average Annual Rental Starts (Thousands)



Source: JCHS tabulations of US Census Bureau, New Residential Construction.

... Conversions of Single-Family Homes from Owner-Occupied to Rental Account for Much of the Recent Increase in the Stock

Single-Family Units Switching Tenure (Millions)



Source: JCHS tabulations of HUD, American Housing Surveys.

percent), and Phoenix (up 39 percent). If many investors were to decide to lock in their gains by selling, house prices in these areas could again weaken.

THE OUTLOOK

Rental markets have rebounded so sharply that some observers have expressed concern about overheating. But so far, the indicators point to a healthy recovery. Construction activity has revived from its low during the recession but is still in line with the moderate levels of the 1990s. Meanwhile, vacancy rates continue to edge down and rental rates are moving up, providing no suggestion that supply has begun to outstrip demand.

But with long lags in bringing new multifamily units to market, it is certainly possible that demand could soften even as supply continues to ramp up. At its current pace, renter household growth remains roughly double the pace during the previous record-setting decade. As the homeownership market recovers, renter household growth will very likely slow and rental markets will have to adjust accordingly. Since much of the increased demand for rental housing has been satisfied by the expanded supply of single-family rentals, future market adjustments may come from a return of these units to owner-occupancy. In addition, the echo-boom generation should provide important ballast for rental demand in the coming years, helping to absorb the supply of new apartments coming on the market.

As with owner-occupied housing, a critical issue for the rental market going forward is whether other sources of multifamily financing will step up as the GSEs and FHA curtail lending. While the participation of private capital has increased in recent years, it is unclear how well these sources will meet the growing demand for multifamily financing, particularly for the affordable and underserved market segments.

6 Housing Challenges

So far, the economic recovery has done nothing to curb the persistent rise in both the number and share of cost-burdened households. Employment growth has been slow to revive, leaving many households with lower incomes amid rising housing costs. Whole communities are still reeling from high foreclosure rates, widespread vacancies, depressed home values, and disinvestment. And at the same time that low-income households far outnumber the rentals they can afford, housing assistance programs are at risk of cutbacks.

SPREADING COST BURDENS

The housing recovery has pushed up rents and house prices even as high unemployment has pushed down real incomes for a broad spectrum of households. These two trends have added millions of households to the ranks of Americans struggling to afford housing **(Figure 28)**. According to the most recent American Community Survey, 42.3 million households (37 percent) paid more than 30 percent of pre-tax income for housing in 2011, while 20.6 million households paid more than half.

The number of severely burdened renter households increased by 530,000 in 2011, to 27.6 percent. The share of owners with similar housing cost burdens was unchanged at 12.6 percent. In fact, the number of severely burdened owners actually fell by 183,000 in 2011 because some formerly burdened households were able to lower their mortgage payments by refinancing. But other owners lost their homes to foreclosure, which may have alleviated their severe cost burdens but likely resulted in a substantial loss of wealth.

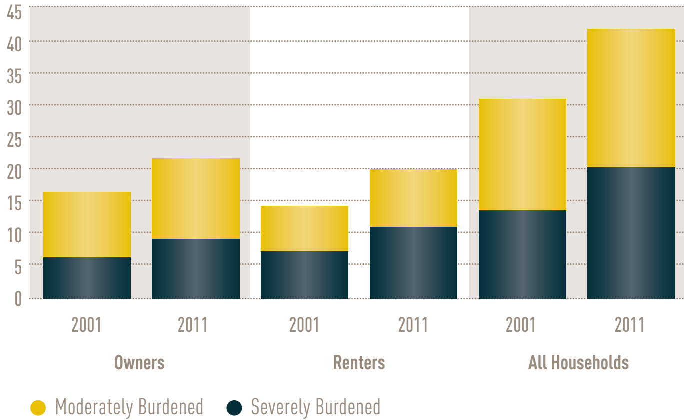
The latest increases in the incidence of severe housing cost burdens mark a decade-long rise. The total number of households paying more than half their incomes for housing soared by 6.7 million from 2001 to 2011, a jump of 49 percent. Among homeowners, 94 percent of the increase in severe housing cost burdens occurred during the boom years from 2001 to 2007 housing when buyers stretched to afford rapidly rising home prices. Among renters, the number of severely burdened households climbed steadily in 2001–07 but then accelerated in 2007–11 amid the Great Recession.

Widening income inequality has been an important factor in the spread of housing cost burdens, with growing numbers of very low-income households unable to afford housing. Over the decade from 2001 to 2011, households earning less than $15,000 accounted for fully 40 percent of overall household growth and households earning $15,000–29,999 contributed another 34 percent. The swelling ranks of low-income households helped push up the number of cost-burdened households, and a rise in the incidence of housing burdens compounded that trend. The share of households earning less than $15,000 with severe cost burdens rose from 62.6 percent in 2001 to 68.7 percent in 2011, while the

FIGURE 28

The Number of Households with Housing Cost Burdens Has Hit Record Highs

Households (Millions)



Note: Moderately (severely) burdened households pay 30–50% (more than 50%) of income for housing.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

share earning $15,000–29,999 with severe cost burdens rose from 23.1 percent to 30.9 percent.

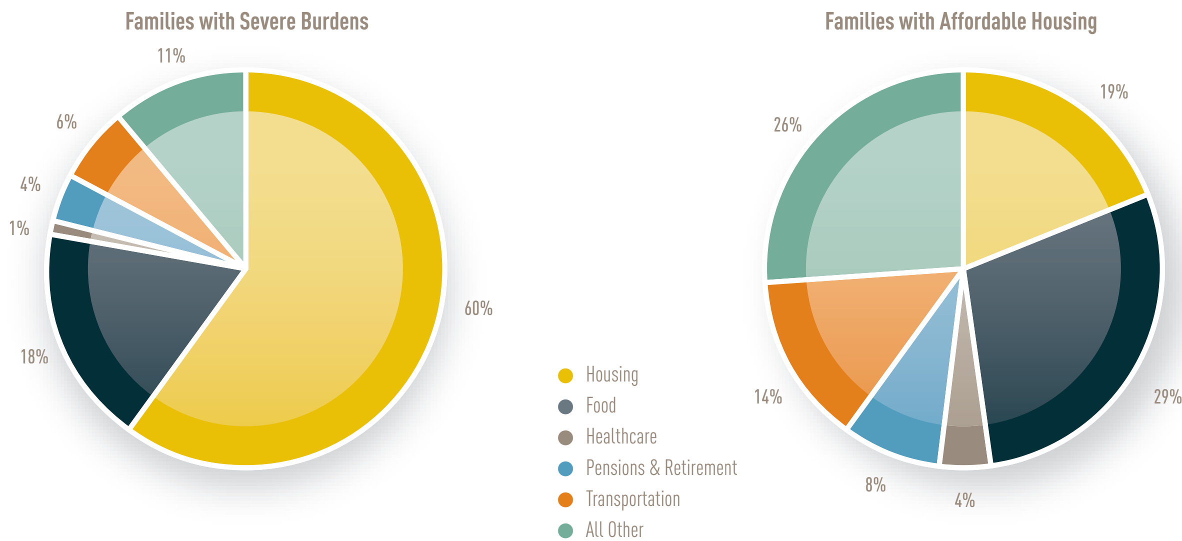
Although rising unemployment and underemployment exacerbated the problem, even working full time does not guarantee that households can afford to pay for housing. From 2007 to 2011, the share of low-income households with full-time jobs that were severely cost burdened increased from 38.6 percent to 42.4 percent. During this period, the total number of working poor households rose by 1.1 million, while the number of such households with severe housing cost burdens was up by 800,000.

Severe housing cost burdens are geographically widespread, with 17.9 percent of all US households devoting more than half their incomes to housing. The shares in 40 states are at least 14 percent. Many states with the largest shares of cost-burdened households also have relatively high home values and rents. California, New York, and New Jersey top the list, with more than 22 percent of households having severe housing cost burdens. But several low-cost states also have large shares of such households. These include Florida and Nevada, where median home values and rents are low but median incomes are low as well. At the other extreme are four states—North Dakota, South Dakota, Iowa, and Wyoming—where less than 12 percent of households are severely burdened. These states are largely rural and have low housing costs relative to incomes.

FIGURE 29

Low-Income Families with Severe Cost Burdens Have Much Less to Spend on Other Necessities than Those with Affordable Housing

Share of Average Monthly Expenditures for Bottom-Quartile Families with Children



Notes: Expenditure quartiles are equal fourths of all households ranked by total spending. Families with affordable housing (severe burdens) devote less than 30% (more than 50%) of monthly expenditures to housing.
Source: JCHS tabulations of US Bureau of Labor Statistics, 2011 Consumer Expenditure Survey.

DIFFICULT SPENDING TRADEOFFS

With housing taking up so much of their funds, low-income households who are severely cost burdened have much less to spend on other necessities **(Figure 29).** According to the 2011 Consumer Expenditure Survey, families with children in the bottom expenditure quartile (a proxy for low income) spend a total of about $1,400 per month. After paying more than half of this amount for housing, the average severely burdened low-income family with children has about $565 left for savings and all other monthly expenses—half the amount unburdened households have. Compared with low-income households living in homes they can afford, those with severe cost burdens spend two-thirds as much on food, half as much on clothes, and half as much on pensions and retirement.

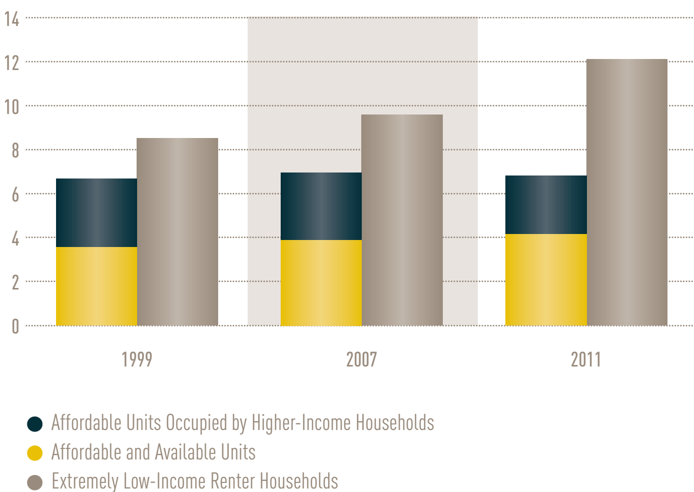
Severe housing cost burdens also lead to noteworthy differences in healthcare outlays. Severely burdened families with children spend only about one-fifth as much on healthcare as those without burdens. Seniors with severe cost burdens also spend $150 less per month, or $1,800 less per year, on healthcare than their unburdened counterparts.

Commuting costs add to the financial pressures on low-income households. Even low-income families who live in affordable housing but at some distance from work must pay a significant share of income for housing and transportation combined.

FIGURE 30

The Gap Between the Number of Extremely Low-Income Renters and the Supply of Affordable and Available Units Continues to Widen

(Millions)



Note: Extremely low-income households earn less than 30% of area median income.
Sources: JCHS tabulations of HUD, American Housing Surveys; and HUD, Worst Case Housing Needs 2009.

On average, low-income families without housing cost burdens spend two-and-a-half times more on transportation each month than those with severe burdens. In rural areas, households in the bottom expenditure quartile but without housing cost burdens spend more than three times as much on transportation as their housing cost-burdened counterparts.

INVESTING IN ENERGY-EFFICIENT IMPROVEMENTS

Improving the energy efficiency of homes would clearly slow the spread of housing cost burdens. For low-income households in particular, utilities account for a substantial share of overall housing costs. In 2011, utility costs were nearly a fifth (18 percent) of housing costs for the median renter earning less than $15,000 annually. Even for those earning $15,000–29,999, utility costs typically made up 16 percent of housing costs. Energy-efficient improvements would also go a long way toward reducing the residential sector's large carbon footprint. According to the Energy Information Administration's 2012 estimates, residential demand accounted for 21 percent of energy consumption in the United States and 20 percent of carbon emissions.

The energy efficiency of the housing stock has in fact improved substantially over the last few decades. New home-building techniques have taken advantage of technological advances to greatly reduce energy use, while retrofits of existing homes have also helped to cut demand. Still, with more than two-thirds of the US housing inventory built before 1990, there is ample opportunity to make much greater improvements in energy efficiency. In fact, nearly a quarter of owners that undertook remodeling projects in 2010–11 did so to improve the efficiency of their homes. Of this group, more than 40 percent used energy tax credits to reduce project costs, indicating the potential for these incentives to spur property owners to action.

A recent Fannie Mae study points to the large potential savings that energy-efficient investments in rental properties could achieve. The report found that multifamily rental housing had 34 percent fewer energy-efficient features on average than other housing units. If these units were brought up to the standards of the rest of the housing stock, utility costs per unit could decline by $400–600 per year. To achieve these savings, however, public policies would have to include incentives for property owners to invest in retrofits as well as incentives for tenants to conserve energy.

THE SHRINKING AFFORDABLE HOUSING SUPPLY

The struggle to find affordable rental housing stems from the simple fact that low-income renters far outnumber the supply of low-cost units. The shortage, or affordability gap, is most acute among extremely low-income renters (earning up to 30 percent of area median income or AMI). Since 2007, the gap has more than doubled, with the number of extremely low-income renters up by 2.5 million and the number of units they could afford down

by 135,000 **(Figure 30).** In 2011, there were 12.1 million extremely low-income renters and just 6.8 million units with rents they could afford at 30 percent of income, bringing the shortage to 5.3 million units.

Both competition from higher-income renters and poor housing quality further limit the supply of low-cost rental housing. Of the 6.8 million units that would be affordable to extremely low-income renters, more than a third were occupied by households with higher incomes. In addition, 560,000 of the affordable units where extremely low-income households reside are structurally inadequate. As a result, for every 100 extremely low-income renters, there are only 30 affordable, available, and adequate housing units. For every 100 renters with incomes below 50 percent of AMI, there are 57 such units.

The affordability gap widens each year in part because low-cost units are removed from the housing stock. From 2001 to 2011, 650,000 units renting for under $400 (affordable to persons earning a full-time minimum wage) were permanently lost. As a result, some 12.8 percent of the 2001 low-cost rental inventory disappeared within the decade.

HOUSING ASSISTANCE AT RISK

Federal rental assistance plays a critical role in relieving the housing cost burdens of some of the nation's most vulnerable families and individuals. Among residents of assisted housing, 35 percent have a disability, 31 percent are age 62 or older, and 38 percent are single-parent families. The incomes of these assisted households are extremely low, with 44 percent having annual incomes of less than $10,000 and another 37 percent having incomes between $10,000 and $20,000. The benefits of housing assistance for those who receive it are substantial. Among programs administered by the US Department of Housing and Urban Development (HUD), the average tenant contribution in 2009 was just $297 out of a monthly rent of $911.

Federal subsidies reach only about a quarter of eligible households, and higher subsidy costs have strained the government's ability to maintain even that limited level of assistance. Between 2008 and 2012, the Housing Choice Voucher Program, which provides subsidies to tenants to obtain housing in the private market, received a 15 percent nominal increase. At the same time, however, rising market rents and utility costs—along with losses in household income resulting from recession-induced unemployment—raised the per-household cost of vouchers. As a result, the increase in program funding did nothing to expand the number of families assisted. For similar reasons, the number of units with project-based rental assistance also remained largely unchanged despite an increase in funding.

Other federal programs that support assisted housing have undergone outright cuts. Funding for public housing fell 12 percent between 2008 and 2012. Compared with two years earlier, appropriations for the HOME program in fiscal 2012 were down by 45 percent while those for the Community Development Block Grant program were down by 26 percent. Budgets for the US Department of Agriculture's Section 515 Rural Rental Housing Program were also slashed. At its height in 1979, Section 515 helped to construct 38,700 rural rental units; in 2012, the program only supported preservation of existing units.

The supply of subsidized rental housing will continue to erode. Each year on average over the next decade, contracts on approximately 3,400 federally assisted properties, including 200,000 units, come up for renewal **(Figure 31).** The supply of public housing is also shrinking at a rate of 10,000 units per year, largely for lack of funds to make necessary repairs. Within the voucher program, the Center on Budget and Policy Priorities estimates that if rental assistance costs continue to rise at the current pace over the next decade, funding would have to increase by $4.5 billion to prevent more than 500,000 low-income families from losing their assistance.

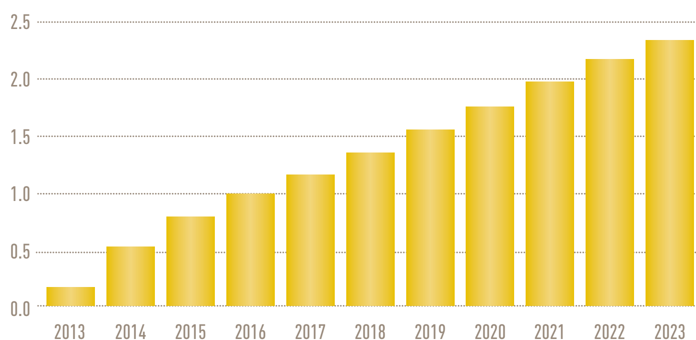
The nation's primary program for producing and preserving low-cost rentals, the Low Income Housing Tax Credit (LIHTC), has successfully constructed or rehabilitated more than 2.2 million units since 1987. The program was designed to make rents affordable to households with incomes at or below 60 percent of area medians, but with the use of additional subsidies, the rents are often affordable to households with even lower incomes. Only 1–2 percent of LIHTC projects have experienced a foreclosure, largely because private investors, not the federal government, bear the financial risk.

In 2008, Congress authorized the creation of a National Housing Trust Fund (NHTF) to provide development and construction subsidies deep enough to bring LIHTC rents down to levels that

FIGURE 31

Subsidies for Millions of Federally Assisted Rental Units Are Set to End within a Decade

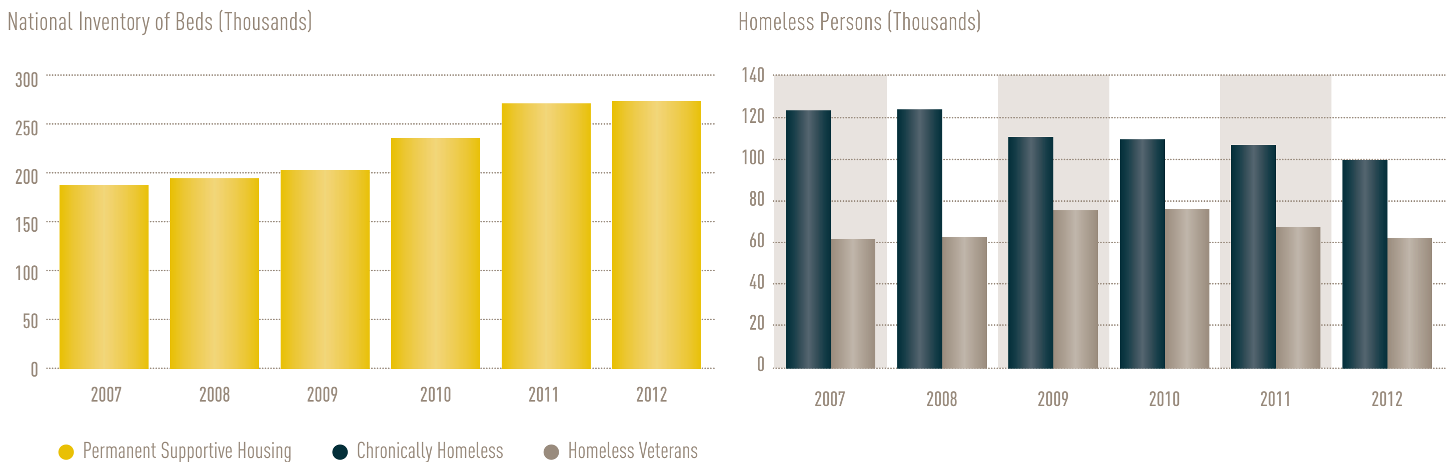
Cumulative Number of Units in Properties with Expiring Rent Subsidies (Millions)



Source: JCHS tabulations of Public and Affordable Housing Research Corporation and National Low Income Housing Coalition, National Housing Preservation Database.

FIGURE 32

Recent Additions to Permanent Supportive Housing Have Helped Those Most at Risk of Homelessness



Sources: HUD, 2012 Annual Homeless Assessment Report, Vol. 1; and HUD, Homelessness Resource Exchange.

extremely low-income renters could afford. Fannie Mae and Freddie Mac were supposed to provide funding, but their contributions were suspended when the two companies were taken into conservatorship. While the NHTF has yet to be capitalized, the LIHTC program still benefits from being written into the US tax code. Until there is tax reform, the program is therefore in less peril than those funded from appropriations. Already, though, cuts to appropriations have made it more difficult to use the tax credit to target lowest-income renters because of severe cutbacks in HOME and CDBG funding.

ENDING HOMELESSNESS

According to HUD's annual point-in-time count, 394,000 individuals and 239,000 persons in families were homeless in January 2012. While the total was essentially unchanged from a year earlier, the number of homeless in families increased slightly by 1.4 percent. But this stability comes after several years of decline. From 2007 to 2012, and despite the severe recession, the number of homeless fell 5.7 percent overall and by 3.7 percent among those in families. The improvement for certain subgroups was even more dramatic, with the number of chronically homeless down 19.3 percent from 2007, to 99,900. The number of homeless veterans, at 62,600 in 2012, was similar to the count from 2007, but fully 17.2 percent below the 2009 level.

Several factors contributed to this progress. First, the American Recovery and Reinvestment Act added $1.5 billion in funding for the Homelessness Prevention and Rapid Re-Housing Program (HPRP). Funding also increased for programs supported through the federal McKinney-Vento Homeless Assistance Act to address the needs of populations at risk of homelessness because of long-term physical or mental health issues. Leveraging these federal resources, 50 out of 54 LIHTC-allocating state agencies gave preference to housing with supportive services. As a result, the number of permanent supportive housing beds increased by more than 86,000 between 2007 and 2012—essentially matching the decline in chronic homelessness **(Figure 32).**

But the national numbers mask worrisome increases over the last five years in several states, including Florida (15 percent), New York (11 percent), Missouri (64 percent), Ohio (24 percent), and Massachusetts (16 percent). In addition, the most recent Hunger and Homelessness Survey released by the US Conference of Mayors indicates that the prevalence of severe mental illness and domestic violence—two key contributors to homelessness—remains high. Among the homeless adult population in the 25 cities responding to the survey, 30 percent on average had severe mental illness and 16 percent were victims of domestic violence. These figures underscore the ongoing need to enhance supportive services for the groups most vulnerable to homelessness.

PERSISTENT NEIGHBORHOOD DISTRESS

Vacant and abandoned housing is a fundamental indicator of neighborhood distress, serving to depress local property values, encourage the spread of crime, and strain municipal budgets by imposing higher service costs while reducing property tax revenues. During the worst years of the housing downturn, 4,689 census tracts (the statistical equivalent of a neighborhood) had very high vacancy rates, with more than one in five homes unoccupied. The average vacancy rate in these distressed areas was 26.0 percent in 2007–11, more than triple the US total.

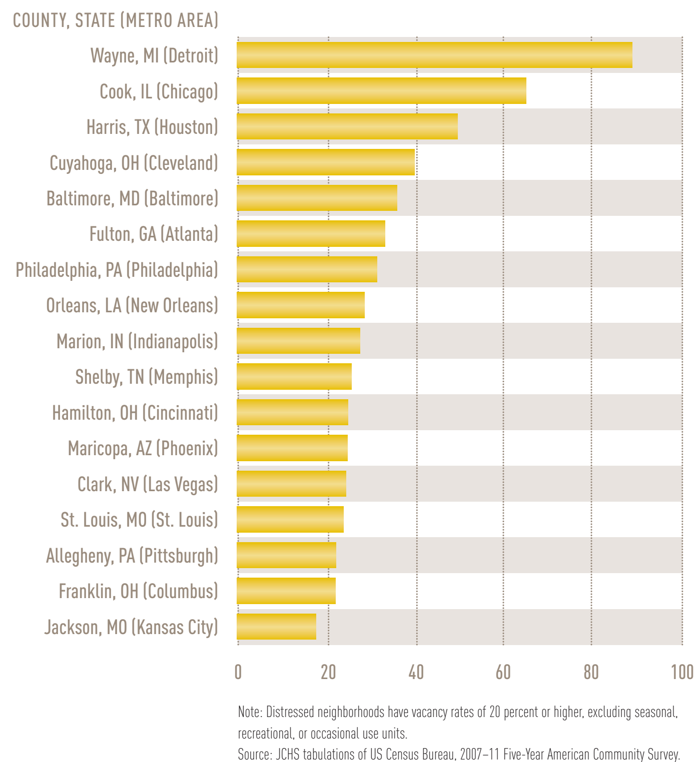
Although distressed communities exist in every state except Vermont, they are heavily concentrated in the central counties of relatively few metropolitan areas. In fact, more than half of these troubled areas are located in just 50 counties. Of these, 17 counties have more than 50 very high-vacancy neighborhoods **(Figure 33).** The worst concentrations are in Wayne County, Detroit (89,000 units) and Cook County, Chicago (65,000 units), where more than 200 neighborhoods have very high vacancy rates. Many other counties with the highest concentrations of vacant units are in metros where household growth has been modest for many years, including Cleveland, Baltimore, and Philadelphia. Even so, concentrations are also high in such fast-growth areas as Houston, Atlanta, Phoenix, and Las Vegas.

Many vacant units are not even for sale or rent. Indeed, roughly 60 percent of vacant units in the distressed neighborhoods of Detroit, Chicago, Cleveland, and Baltimore are held off the market, suggesting that they are in poor condition. For homes in the worst condition, demolition is perhaps the best course of action to reduce the spread of blight. But with thousands of units in such a deteriorated state and demolition costs on the order of $10,000 per unit, municipal governments would need tens of millions of doIlars to carry out such a strategy.

FIGURE 33

Thousands of Vacant Housing Units Are Clustered within Distressed Neighborhoods of Select Urban Counties

Vacant Housing Units in Distressed Neighborhoods (Thousands)



Note: Distressed neighborhoods have vacancy rates of 20 percent or higher, excluding seasonal, recreational, or occasional use units.
Source: JCHS tabulations of US Census Bureau, 2007–11 Five-Year American Community Survey.

And in cases where there may be demand for the homes, the cost of rehabilitation can easily exceed market values and thus require subsidies. But the Neighborhood Stabilization Program—which was created in response to the foreclosure crisis and provided critical funding for both rehabilitation and demolition—has now ended even though the challenges facing distressed communities are undiminished. Since the broader housing market recovery is likely to bypass these neighborhoods, some concerted federal action is necessary to improve conditions for the 12 million people residing in these distressed communities.

THE OUTLOOK

Four years after the official end of the Great Recession, housing markets across the country finally showed signs of a true revival in 2012. There is every reason to believe that the recovery will continue as steady employment growth and low interest rates fuel demand for both rental and owner-occupied housing. With construction activity, home sales, and housing wealth rising, the housing market rebound will in turn support stronger growth of the economy.

But significant housing challenges remain. While the foreclosure crisis has clearly ebbed, millions of homeowners are behind on their mortgage payments and still face the prospect of losing their homes. Thousands of neighborhoods across the country are blighted by vacant and deteriorating housing, exposing millions of households to falling property values and rising crime rates. Indeed, the fallout from home forfeitures will keep distress high for years to come. Meanwhile, the number of US households devoting more than half their incomes to housing has climbed ever higher.

With governments at all levels under severe budgetary pressures, policymakers must make difficult choices about allotting scarce public resources to the country's many competing needs. In this environment, it makes sense to identify improvements to current programs to make the best possible use of available funding. But given the profoundly positive impact that decent and affordable housing can have on the lives of individuals, families, and entire communities, efforts to address urgent and longstanding housing challenges should be among the nation's highest priorities.

Appendix Tables

Table A-1 .... Housing Market Indicators: 1980–2012

Table A-2 .... Homeownership Rates by Age, Race/Ethnicity, and Region: 1995–2011

Table A-3 .... Housing Cost-Burdened Households by Tenure and Income: 2001, 2007, 2010, and 2011

Table A-4 .... Severely Cost-Burdened Households by Demographic Characteristics: 2011

Table A-5 .... Monthly Housing and Non-Housing Expenditures by Households with Children: 2011

Table A-6 .... Median Household Net Worth, Home Equity, and Cash Savings by Race/Ethnicity, Age, and Tenure: 2010

The following tables can be downloaded in Microsoft Excel format from the Joint Center's website at www.jchs.harvard.edu.

Table W-1 .... Housing Cost Burdens by Tenure and State: 2011

Table W-2 .... Severely Cost-Burdened Households by State and Selected Characteristics: 2011

Table W-3 .... Metro Area Median Home Price-to-Income Ratios: 1990–2012

Table W-4 .... Metro Area Standardized Mortgage Payments on a Median-Priced Home: 1990–2012

Table W-5 .... Point-in-Time (PIT) Estimates of Homelessness: 2007–12

Table W-6 .... State Homelessness Counts: 2007–12

Table W-7 .... Extremely Low-Income Households and the Affordable Rental Supply Gap: 1999–2011

Table W-8 .... Housing Costs and Affordability: 1990–2012

Table W-9 .... Movers and Mobility Rates by Household Characteristics: 2007 and 2011

TABLE A-1

Housing Market Indicators: 1980–2012

Year	Permits [1] (Thousands)		Starts [2] (Thousands)			Size [3] (Median sq. ft.)		Sales Price of Single-Family Homes (2012 dollars)	
	Single-Family	Multifamily	Single-Family	Multifamily	Manufactured	Single-Family	Multifamily	New [4]	Existing [5]
1980	710	480	852	440	234	1,595	915	179,997	173,310
1981	564	421	705	379	229	1,550	930	174,027	167,712
1982	546	454	663	400	234	1,520	925	164,879	161,311
1983	902	704	1,068	636	278	1,565	893	173,579	162,053
1984	922	759	1,084	665	288	1,605	871	176,560	159,987
1985	957	777	1,072	670	283	1,605	882	179,877	161,100
1986	1,078	692	1,179	626	256	1,660	876	192,725	168,215
1987	1,024	510	1,146	474	239	1,755	920	211,202	173,004
1988	994	462	1,081	407	224	1,810	940	218,337	173,311
1989	932	407	1,003	373	203	1,850	940	222,188	175,158
1990	794	317	895	298	195	1,905	955	215,892	170,922
1991	754	195	840	174	174	1,890	980	202,285	173,123
1992	911	184	1,030	170	212	1,920	985	198,829	172,646
1993	987	213	1,126	162	243	1,945	1,005	200,994	173,347
1994	1,069	303	1,198	259	291	1,940	1,015	201,398	175,836
1995	997	335	1,076	278	319	1,920	1,040	201,723	176,263
1996	1,070	356	1,161	316	338	1,950	1,030	204,864	179,402
1997	1,062	379	1,134	340	336	1,975	1,050	208,852	184,533
1998	1,188	425	1,271	346	374	2,000	1,020	214,804	191,563
1999	1,247	417	1,302	339	338	2,028	1,041	221,877	194,590
2000	1,198	394	1,231	338	281	2,057	1,039	225,327	196,395
2001	1,236	401	1,273	329	196	2,103	1,104	227,131	203,018
2002	1,333	415	1,359	346	174	2,114	1,070	239,421	213,896
2003	1,461	428	1,499	349	140	2,137	1,092	243,320	224,852
2004	1,613	457	1,611	345	124	2,140	1,105	268,609	237,251
2005	1,682	473	1,716	353	123	2,227	1,143	283,201	257,456
2006	1,378	461	1,465	336	112	2,259	1,192	280,729	252,713
2007	980	419	1,046	309	95	2,230	1,134	274,505	241,285
2008	576	330	622	284	81	2,174	1,089	247,506	209,650
2009	441	142	445	109	55	2,103	1,124	231,909	184,179
2010	447	157	471	116	51	2,151	1,137	233,536	182,259
2011	418	206	431	178	47	2,267	1,093	231,902	169,639
2012	519	311	535	245	51	2,309	1,056	245,200	177,200

Notes: All value series are adjusted to 2012 dollars by the CPI-U for All Items. All links are as of April 2013. na indicates data not available.

Sources:

1. US Census Bureau, New Privately Owned Housing Units Authorized by Building Permits, http://www.census.gov/construction/pdf/bpann.pdf.
2. US Census Bureau, New Privately Owned Housing Units Started, www.census.gov/construction/nrc/xls/starts_cust.xls; Placements of New Manufactured Homes, http://www.census.gov/construction/mhs/pdf/mhstabplcmnt.pdf and JCHS historical tables. Manufactured housing starts are defined as placements of new manufactured homes.
3. US Census Bureau, Quarterly Starts and Completions by Purpose and Design, http://www.census.gov/construction/nrc/pdf/quarterly_starts_completions.pdf and JCHS historical tables.
4. New home price is the median price from US Census Bureau, Median and Average Sales Price of New One-Family Houses Sold, http://www.census.gov/construction/nrs/xls/usprice_cust.xls.

Vacancy Rates [6] (Percent)		Value Put in Place [7] (Millions of 2012 dollars)			Home Sales (Thousands)	
For Sale	For Rent	Single-Family	Multifamily	Owner Improvements	New [8]	Existing [9]
1.4	5.4	147,456	46,554	na	545	2,973
1.4	5.0	131,252	44,100	na	436	2,419
1.5	5.3	98,647	36,968	na	412	1,990
1.5	5.7	167,156	51,744	na	623	2,697
1.7	5.9	190,912	62,362	na	639	2,829
1.7	6.5	186,385	60,896	na	688	3,134
1.6	7.3	218,137	65,020	na	750	3,474
1.7	7.7	236,902	51,440	na	671	3,436
1.6	7.7	233,074	43,275	na	676	3,513
1.8	7.4	223,908	41,297	na	650	3,010
1.7	7.2	198,301	33,815	na	534	2,914
1.7	7.4	167,605	25,535	na	509	2,886
1.5	7.4	199,608	21,428	na	610	3,151
1.4	7.3	222,639	17,141	90,994	666	3,427
1.5	7.4	251,452	21,815	100,146	670	3,544
1.5	7.6	231,274	26,950	85,445	667	3,519
1.6	7.8	249,919	29,740	97,136	757	3,797
1.6	7.7	250,592	32,734	95,319	804	3,964
1.7	7.9	280,878	34,614	101,923	886	4,495
1.7	8.1	308,473	37,807	103,401	880	4,649
1.6	8.0	315,709	37,678	108,119	877	4,603
1.8	8.4	322,917	39,288	110,225	908	4,735
1.7	8.9	339,336	42,054	124,886	973	4,974
1.8	9.8	387,533	43,818	125,209	1,086	5,446
1.7	10.2	458,893	48,549	140,259	1,203	5,958
1.9	9.8	509,633	55,602	154,111	1,283	6,180
2.4	9.7	473,762	60,135	165,056	1,051	5,677
2.7	9.7	337,936	54,213	154,032	776	4,420
2.8	10.0	198,107	47,281	128,119	485	3,660
2.6	10.6	112,729	30,541	119,901	375	3,870
2.6	10.2	118,525	15,463	117,467	323	3,708
2.5	9.5	110,417	15,078	116,369	306	3,787
2.0	8.7	129,252	21,348	124,862	368	4,128

5. Existing home price is the median sales price of existing single-family homes determined by the National Association of Realtors®.
6. US Census Bureau, Housing Vacancy Survey, http://www.census.gov/housing/hvs/data/ann12ind.html.
7. US Census Bureau, Annual Value of Private Construction Put in Place, http://www.census.gov/construction/c30/privpage.html; data 1980-1993 retrieved from past JCHS reports. Single-family and multifamily are new construction. Owner improvements do not include expenditures on rental, seasonal, and vacant properties.
8. US Census Bureau, Houses Sold by Region, http://www.census.gov/construction/nrs/xls/sold_cust.xls.
9. National Association of Realtors®, Existing Single-Family Home Sales.

TABLE A-2

Homeownership Rates by Age, Race/Ethnicity, and Region: 1995–2011

Percent

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
All Households	64.7	65.4	65.7	66.3	66.8	67.4	67.8	67.9	68.3	69.0	68.9	68.8	68.1	67.8	67.4	66.8	66.1	65.4
Age of Householder																		
Under 35	38.6	39.1	38.7	39.3	39.7	40.8	41.2	41.3	42.2	43.1	43.0	42.6	41.7	41.0	39.7	39.1	37.7	36.7
35–44	65.2	65.5	66.1	66.9	67.2	67.9	68.2	68.6	68.3	69.2	69.3	68.9	67.8	67.0	66.2	65.0	63.5	61.4
45–54	75.2	75.6	75.8	75.7	76.0	76.5	76.7	76.3	76.6	77.2	76.6	76.2	75.4	75.0	74.4	73.5	72.7	71.7
55–64	79.5	80.0	80.1	80.9	81.0	80.3	81.3	81.1	81.4	81.7	81.2	80.9	80.6	80.1	79.5	79.0	78.5	77.3
65 and Over	78.1	78.9	79.1	79.3	80.1	80.4	80.3	80.6	80.5	81.1	80.6	80.9	80.4	80.1	80.5	80.5	80.9	81.1
Race/Ethnicity of Householder																		
White	70.9	71.7	72.0	72.6	73.2	74.0	74.3	74.7	75.4	76.0	75.8	75.8	75.2	75.0	74.8	74.4	73.8	73.5
Hispanic	42.0	42.8	43.3	44.7	45.5	46.0	47.3	47.0	46.7	48.1	49.5	49.7	49.7	49.1	48.4	47.5	46.9	46.1
Black	42.9	44.5	45.4	46.1	46.7	47.2	48.4	48.2	48.8	49.7	48.8	48.4	47.8	47.9	46.6	45.9	45.4	44.6
Asian/Other	51.5	51.5	53.3	53.7	54.1	54.3	54.7	55.0	56.9	59.7	60.3	60.8	60.1	59.5	59.0	58.2	57.4	56.7
All Minority	43.7	44.9	45.8	46.8	47.4	47.9	49.0	48.9	49.5	51.0	51.3	51.3	50.9	50.6	49.7	48.9	48.3	47.7
Region																		
Northeast	62.0	62.2	62.4	62.6	63.1	63.5	63.7	64.3	64.4	65.0	65.2	65.2	65.0	64.6	64.0	64.1	63.6	63.5
Midwest	69.2	70.6	70.5	71.1	71.7	72.6	73.1	73.1	73.2	73.8	73.1	72.7	71.9	71.7	71.0	70.8	70.2	69.6
South	66.7	67.5	68.0	68.6	69.1	69.6	69.8	69.7	70.1	70.9	70.8	70.5	70.1	69.9	69.6	69.0	68.3	67.2
West	59.2	59.2	59.6	60.5	60.9	61.7	62.6	62.5	63.4	64.2	64.4	64.7	63.5	63.0	62.6	61.4	60.5	59.8

Notes: White, black and Asian/other are non-Hispanic. Hispanic householders may be of any race. After 2002, Asian/other also includes householders of more than one race.
Caution should be used in interpreting changes before and after 2002 and 2012 because of rebenchmarking.

Source: US Census Bureau, Housing Vacancy Surveys.

TABLE A-3

Housing Cost-Burdened Households by Tenure and Income: 2001, 2007, 2010, and 2011

Thousands

Tenure and Income	2001			2007			2010			2011		
	Moderate Burden	Severe Burden	Total	Moderate Burden	Severe Burden	Total	Moderate Burden	Severe Burden	Total	Moderate Burden	Severe Burden	Total
Owners												
Less than $15,000	932	2,779	4,858	979	3,096	5,029	957	3,469	5,401	1,000	3,635	5,651
$15,000–29,999	1,909	1,830	8,421	2,149	2,423	8,752	2,359	2,777	9,554	2,374	2,763	9,678
$30,000–44,999	2,224	993	9,444	2,587	1,581	9,904	2,726	1,571	10,184	2,743	1,494	10,268
$45,000–74,999	3,152	643	17,331	4,083	1,400	18,125	4,006	1,218	18,061	3,766	1,053	17,859
$75,000 and Over	2,054	240	29,932	3,817	671	33,702	3,203	493	31,747	2,774	399	30,920
Total	10,270	6,485	69,986	13,615	9,172	75,512	13,251	9,528	74,948	12,657	9,345	74,376
Renters												
Less than $15,000	1,021	5,026	7,607	1,113	5,665	8,423	1,155	6,900	9,730	1,212	7,268	10,222
$15,000–29,999	3,386	1,965	8,015	3,522	2,508	8,563	3,859	3,057	9,417	3,939	3,207	9,641
$30,000–44,999	1,913	283	6,966	2,139	466	6,771	2,373	581	6,999	2,408	589	7,103
$45,000–74,999	714	78	7,909	1,009	123	7,512	1,261	148	7,729	1,263	152	7,785
$75,000 and Over	147	9	5,951	204	11	5,598	233	7	5,744	244	8	5,865
Total	7,180	7,361	36,450	7,988	8,773	36,866	8,881	10,694	39,620	9,066	11,224	40,615
All Households												
Less than $15,000	1,953	7,805	12,466	2,093	8,761	13,451	2,112	10,369	15,131	2,213	10,903	15,873
$15,000–29,999	5,294	3,795	16,436	5,671	4,931	17,315	6,218	5,834	18,971	6,313	5,970	19,319
$30,000–44,999	4,137	1,276	16,410	4,726	2,047	16,674	5,099	2,152	17,183	5,151	2,083	17,371
$45,000–74,999	3,866	722	25,240	5,092	1,523	25,637	5,267	1,366	25,790	5,029	1,205	25,644
$75,000 and Over	2,201	249	35,884	4,021	682	39,299	3,436	501	37,491	3,017	407	36,785
Total	17,450	13,846	106,436	21,603	17,944	112,378	22,132	20,222	114,567	21,724	20,569	114,992

Notes: Moderate (severe) burdens are defined as housing costs of 30-50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be unburdened. Income cutoffs are adjusted to 2011 dollars by the CPI-U for All Items.

Source: JCHS tabulations of US Census Bureau, American Community Surveys.

TABLE A-4

Severely Cost-Burdened Households by Demographic Characteristics: 2011

Percent

	Household Income					
	Less than $15,000	$15,000–29,999	$30,000–44,999	$45,000–74,999	$75,000 and Over	Total
Tenure						
Owners With Mortgages	94.6	57.4	24.5	8.4	1.6	15.0
Owners Without Mortgages	45.6	5.5	0.9	0.2	0.0	7.8
Renters	71.1	33.3	8.3	2.0	0.1	27.6
Age of Householder						
Under 25	83.3	31.3	7.5	2.1	1.1	38.3
25–44	81.2	38.6	12.4	4.3	0.9	18.0
45–64	71.4	34.4	14.4	5.6	1.3	16.3
65 and Over	48.7	21.1	9.1	4.1	1.0	16.8
Household Type						
Married without Children	70.2	25.8	11.5	4.2	0.9	8.3
Married with Children	84.4	46.2	18.8	7.0	1.4	11.5
Single Parent	81.1	41.3	13.7	4.9	1.6	33.7
Other Family	73.1	31.8	10.3	4.0	1.2	18.2
Single Person	61.6	25.4	9.5	4.0	1.1	26.8
Non-Family	84.9	33.5	10.3	3.1	0.6	17.2
Race/Ethnicity of Householder						
White	65.7	27.2	11.0	4.3	1.0	14.7
Black	71.8	34.1	11.3	4.0	1.0	27.8
Hispanic	74.3	40.0	14.4	5.7	1.3	25.2
Asian/Other	72.8	40.6	20.2	9.1	1.9	21.1
Education of Householder						
No High School Diploma	59.9	27.1	9.8	4.1	1.2	28.4
High School Graduate	65.5	26.9	9.6	3.6	1.0	20.0
Some College	75.4	33.6	12.3	4.4	1.0	18.9
Bachelor's Degree or Higher	81.1	41.2	16.7	6.2	1.2	10.9
Weeks Worked in Last 12 Months						
Fully Employed	75.0	31.9	11.6	4.2	1.0	9.7
Short-Term Unemployed	79.7	38.5	14.8	5.8	1.3	22.6
Long-Term Unemployed	83.0	43.8	17.2	7.0	1.8	37.6
Fully Unemployed	82.9	48.2	22.3	9.8	3.5	50.8
Total	68.7	30.9	12.0	4.7	1.1	17.9

Note: Severe cost burdens are defined as housing costs of more than 50% of household income. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be unburdened. Children are the householder's own children under the age of 18. Fully employed householders worked for at least 48 weeks, short-term unemployed for 27-47 weeks, long-term unemployed for 1-26 weeks, and fully unemployed householders did not work in the previous 12 months but were in the labor force.

Source: JCHS tabulations of US Census Bureau, American Community Survey.

TABLE A-5

Monthly Housing and Non-Housing Expenditures by Households with Children: 2011

Dollars

Share of Expenditures on Housing	Housing Expenditures	Non-Housing Expenditures							
		Total	Transportation	Food	Clothes	Healthcare	Personal Insurance and Pensions	Entertainment	Other
Quartile 1 (Lowest)									
Less than 30%	257	1,129	197	409	38	54	105	64	262
30–50%	586	891	167	314	36	36	107	57	175
Over 50%	839	565	88	258	21	12	53	37	96
All	484	939	166	346	34	40	97	57	199
Quartile 2									
Less than 30%	533	2,021	414	533	60	169	291	108	448
30–50%	942	1,577	312	496	54	84	251	86	295
Over 50%	1,351	1,053	202	397	45	42	121	70	176
All	771	1,758	354	507	56	122	262	95	361
Quartile 3									
Less than 30%	796	3,136	559	701	105	302	493	187	788
30–50%	1,409	2,395	434	625	75	200	438	127	496
Over 50%	2,170	1,644	299	559	33	91	344	85	233
All	1,058	2,827	506	670	92	259	469	163	668
Quartile 4 (Highest)									
Less than 30%	1,310	7,000	1,846	1,009	206	474	1,086	426	1,954
30–50%	2,734	4,633	687	876	150	308	985	307	1,321
Over 50%	4,271	2,955	350	685	83	220	654	221	742
All	1,677	6,419	1,577	973	191	434	1,053	397	1,794

Notes: Data refer to housholds with children under the age of 18. Quartiles are equal fourths of households ranked by total expenditures.
Housing expenditures include mortgage principal and interest, insurance, taxes, maintenance, rents, and utilities.

Source: JCHS tabulations of the US Bureau of Labor Statistics, 2011 Consumer Expenditure Survey.

TABLE A-6

Median Household Net Worth, Home Equity, and Cash Savings by Race/Ethnicity, Age, and Tenure: 2010

Dollars

Race / Ethnicity	Age	Owners			Renters		All Households	
		Median Cash Savings	Median Home Equity	Median Total Net Worth	Median Cash Savings	Median Total Net Worth	Median Cash Savings	Median Total Net Worth
White								
	Under 25	3,000	18,000	36,450	1,000	3,100	1,200	5,810
	25–34	4,060	21,000	50,800	1,490	6,500	2,800	21,840
	35–44	4,910	44,000	110,850	700	5,710	3,100	63,700
	45–54	7,350	84,000	244,500	500	7,331	4,900	171,400
	55–64	11,500	112,000	342,050	710	7,330	8,000	246,100
	65 and Over	14,000	130,000	310,600	1,000	6,910	11,000	254,400
	All	8,400	84,000	214,450	960	6,050	5,000	123,380
Black								
	Under 25	n/a	n/a	n/a	100	1	50	100
	25–34	1,780	7,000	14,360	500	1,431	800	3,100
	35–44	1,960	25,000	48,360	500	1,101	950	12,200
	45–54	2,101	53,000	94,260	250	5,500	850	31,000
	55–64	1,430	56,000	90,359	200	5,420	600	20,000
	65 and Over	2,200	90,000	132,400	250	800	1,500	94,850
	All	2,000	50,000	86,100	250	2,100	830	15,570
Hispanic								
	Under 25	n/a	n/a	n/a	400	1,600	400	1,600
	25–34	2,000	16,000	36,060	250	4,400	710	6,600
	35–44	1,180	28,000	44,450	150	5,710	500	18,500
	45–54	1,820	55,200	115,600	500	7,000	1,400	37,500
	55–64	1,580	75,000	150,100	770	3,000	1,000	89,100
	65 and Over	8,500	125,000	203,950	50	50	1,400	90,090
	All	1,670	42,000	75,860	280	4,470	750	15,000
Other								
	Under 25	n/a	n/a	n/a	4,200	5,750	4,200	5,750
	25–34	11,000	79,000	110,500	6,900	15,000	8,000	28,300
	35–44	6,000	60,000	230,680	1,400	15,260	4,050	42,600
	45–54	9,140	169,000	430,700	300	6,060	5,660	184,900
	55–64	8,800	200,000	442,600	510	6,200	5,000	185,380
	65 and Over	6,110	101,000	154,630	220	1,500	3,500	101,350
	All	8,600	96,000	222,600	1,650	10,260	5,010	68,200
All Households								
	Under 25	3,000	20,000	36,450	786	2,090	910	3,530
	25–34	3,820	20,000	49,500	1,000	5,210	2,005	12,800
	35–44	3,900	39,000	83,760	500	5,600	2,000	42,361
	45–54	5,600	78,000	194,170	400	6,200	3,050	117,150
	55–64	9,000	103,300	277,590	500	6,100	5,000	178,700
	65 and Over	11,400	125,000	272,700	700	5,150	8,200	212,400
	All	6,400	75,000	173,010	630	5,100	3,100	77,000

Notes: White, black, and other households are non-Hispanic. Hispanic households may be of any race. Cash savings include CDs and checking, savings, and money market accounts. Home equity is for primary residences only.
Source: JCHS tabulations of Federal Reserve Board, 2010 Survey of Consumer Finances.

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