



FACT SHEET

The State of the Nation's Housing

JUNE 22, 2009

PURPOSE:

The State of the Nation's Housing report has been released annually by Harvard University's Joint Center for Housing Studies since 1988. Now in its 21st year, it continues to serve as an essential resource for both public policy makers and private decision makers in the housing industry. This year's report provides a current assessment of the housing market downturn; housing's role in the economy; housing affordability challenges; and the demographic trends driving long-run housing demand.

FINDINGS:

THE HOUSING DOWNTURN

- Sales of existing single-family homes were down 30 percent last year from the 2005 level to 4.35 million, their lowest level since 1997. Existing single-family home sales were 4 percent higher in April than January, reaching a seasonally adjusted annual rate of 4.68 million. However, they were still well below the 4.85 million-unit rate for April 2008 and have been vacillating between modest monthly gains and losses since February.
- New home sales showed a record-breaking plunge of more than 60 percent from 2005 to 2008. Actual declines were even larger because cancellations, which are not backed out of reported sales, rose over the period. Although seasonally adjusted monthly new home sales were 7 percent higher in April than January, at 352,000 they were still down 34 percent compared with a year earlier and have been sliding since a single monthly jump in February.
- Housing starts were down by more than 30 percent for the year in 2008 and more than 50 percent from the 2005 level. Manufactured housing shipments slid for the third consecutive year, falling to 81,900 units—their lowest level since recordkeeping began in 1959. Starts reached a preliminary new low in April of 458,000, marking a 54 percent decline from April 2008.
- The national homeownership rate slid from its peak in 2004 to 67.3 percent in the first quarter of 2009, erasing all of the gains since 2000. Although the total number of households rose by 3.2 million between 2005 and 2008, only 1.0 million homeowners were added on net.
- Measured on a monthly basis and adjusted for inflation, the national median home price fell by 29.8 percent from October 2005 to January 2009. From January's low, the non-seasonally adjusted median price of existing single family homes increased by 2.4 percent in real terms to \$169,800 in April, but a series by Moody's Economy.com suggested that real median prices after adjusting for seasonality slid in March and April. Meanwhile, many metro areas continued to show significant month-over-month and year-over-year declines in median prices.
- Price declines in National Association of Realtors® median home prices and the S&P/Case Shiller repeat sales index are influenced by especially large price drops among foreclosure sales. For example, the S&P/Case-Shiller index indicates that home prices in Cleveland plummeted more than 28 percent from the peak to the first quarter of 2008, but excluding sales of foreclosed homes, the drop was only 6 percent.
- The homeowner vacancy rate hit a record-breaking 2.8 percent last year, while the vacancy rate for homes built since 2000 jumped by almost four percentage points to 9.7 percent in just two years. In the first quarter of 2009, the homeowner vacancy rate was at a still historically high 2.7 percent.
- According to JCHS estimates, deep production cuts through 2008 brought the oversupply of new housing relative to long-run demand down from about the 1.0–1.5 million unit range entering 2005 to the -0.1–0.5 million range entering 2009. Progress in working off the oversupply is masked because the weak economy is driving household growth and second home demand below long-run potential.

THE FORECLOSURE CRISIS

- First-lien one- to four-family loans in foreclosure rose by 62 percent in 2008 alone. By the first quarter of 2009, 3.9 percent of these loans were in foreclosure, while the share that were at least 60 days past due or in foreclosure had reached 8.8 percent.
- According to the Mortgage Bankers Association, at least 3.2 million homeowners entered foreclosure in 2007 and 2008, and an additional 600,000 entered foreclosure in just the first quarter of 2009.
- Given the combination of lower home values and higher loan balances from cashing out equity, Moody's Economy.com estimates that more than 14 million households owned homes that were worth less than their outstanding mortgages in March 2009.
- The National Association of Realtors® estimated that sales of foreclosed homes accounted for 30 percent of existing home sales in the fourth quarter of 2008, and short sales (homes sold for less than the outstanding mortgage) for an additional 15 percent.
- Foreclosure rates in California, Arizona, Nevada, and Florida surged from less than 0.9 percent at the start of 2007 to 5.9 percent by the end of 2008. According to the Mortgage Bankers Association, by the first quarter of 2009 there were nearly 800,000 outstanding loans in foreclosure in just those four states, amounting to 46 percent of the national total.
- Based on HUD estimates, the median foreclosure rate from January 2007 through June 2008 was 8.4 percent in low-income minority neighborhoods—significantly higher than the 6.3 percent in low-income white neighborhoods and the 2.3 percent in high-income white neighborhoods.
- According to a 2007 consumer bankruptcy survey, more than half of bankrupt homeowners with mortgages missed payments before filing, and roughly a quarter said that higher mortgage payments contributed significantly to their bankruptcy.
- The Office of Thrift Supervision's fourth-quarter 2008 report indicates that, of the loan modifications made by national banks and federal thrifts that lowered payments by 10 percent or more, one-fifth fell at least 60 days delinquent within six months of modification.

THE HOUSING FINANCE SYSTEM

- So complete was the shutdown of private mortgage lending in 2008 that 74 percent of loans originated—and more than 85 percent of loans originated in the second half of the year—were bought, insured, or guaranteed by a federal agency or by Fannie Mae and Freddie Mac.
- FHA and VA more than quadrupled their real volume of loan originations last year, lifting their market share from 7 percent in the fourth quarter of 2007 to 34 percent in the fourth quarter of 2008.
- Between 2006 and 2008, the Fannie Mae and Freddie Mac share of new mortgage-backed security issuances soared from 40 percent to 74 percent, while the Ginnie Mae share jumped from 4 percent to 22 percent.
- Originations of non-prime loans with so-called affordability features—such as interest-only or payment-option loans—fell from almost 20 percent of originations in 2005 to less than 2 percent in 2008.
- First American CoreLogic reports that the share of non-prime loans with combined loan-to-value ratios at the time of origination of more than 100 percent fell from 15 percent in 2006 to 1 percent in mid-2008, while the share requiring little or no income documentation shrank from 45 percent in 2006 to 19 percent at the end of last year.
- In 2005 a household with median income spending 38 percent of income on mortgage costs could qualify for a \$482,000 interest-only adjustable-rate mortgage. In contrast, facing the stricter lending standards of 2008, a median-income household paying 28 percent of income could qualify for a 30-year, fixed rate loan of just \$277,000. By the week of June 11, 2009, a sharp uptick in interest rates to 5.59 percent lowered the maximum affordable loan level even further.

RENTAL MARKETS

- The national rental vacancy rate notched up to 10.0 percent in 2008—just shy of the 10.2 percent record set in 2004. Multifamily buildings with 10 or more apartments posted the largest increase, rising almost a full

percentage point to 11.1 percent. In the first quarter of 2009, the rental vacancy rate remained at an elevated 10.1 percent.

- While nominal rents rose 3.7 percent last year, real rents fell by 0.2 percent, while the real price of multifamily properties dropped in 2008 for the first time in years.
- By the end of March 2009, Deutsche Bank estimates that the share of multifamily loans in CMBS pools 90+ days delinquent or in foreclosure was about 1.8 percent, well below the Mortgage Bankers Association single-family rate of 7.2 percent despite increases in the last quarter of 2008 and the first quarter of 2009. Meanwhile, default rates for Freddie Mac and Fannie Mae multifamily loans remained below 0.5 percent.
- As multifamily loan originations plummeted, the amount of multifamily debt owned by Fannie and Freddie jumped 23 percent in real terms from 2007 to 2008, while that owned by banks and savings institutions increased only 3 percent.

HOUSING AND ENERGY CONSUMPTION

- The residential sector is responsible for about one-fifth of total domestic energy consumption. If homes built before 2000 used as little energy per square foot (adjusted by region) as those built since then, residential energy consumption would drop by fully 22.5 percent.
- Both population and employment have become much more dispersed over the last century, making energy savings from reducing commutes by car difficult to achieve. From 2000 to 2006, job growth was faster in suburbs than central cities in 68 of the nation's 75 largest metropolitan areas.
- The potential for savings from more compact development are more substantial for non-work trips. As an example, in 2001, center city households drove 8.9 miles a day for work commutes and 36.6 miles for non-work activities on average, while suburban households drove 12.2 miles for work but 47.8 miles for other trips.

HOUSING AND THE ECONOMY

- The cutbacks in home building and remodeling shaved a full percentage point off economic growth in 2007 and nearly another point in 2008.
- The loss of housing wealth caused consumers to curtail cash-out refinances and pull back on spending, knocking an additional 0.9 percentage point off economic growth last year, according to Moody's Economy.com.
- Aggregate home equity fell by \$2.5 trillion in real terms in 2008 and nearly \$5.9 trillion (or 43 percent) from the 2005 level.
- Aggregate household debt roughly doubled in real terms between the mid-1990s and the \$14.3 trillion peak in 2007, with mortgage debt rising much faster than consumer debt. Households were able to increase their debt loads not only because of lax lending standards but also because low interest rates reduced carrying costs.
- A recent Federal Reserve report estimates that of the trillions of dollars in real home equity cashed out between 2001 and 2007, homeowners used \$874 billion to pay off non-mortgage debt—in effect rolling consumer debt into their home loans.

HOUSING AFFORDABILITY CONCERNS

- The number of households with severe housing cost burdens (paying more than half their incomes for housing) jumped from 13.8 million in 2001 to 17.9 million in 2007.
- Households in the bottom income quartile are most likely to face affordability problems. In 2007, nearly three-quarters of severely cost-burdened households had low incomes. Fully 51 percent of low-income renters and 43 percent of low-income owners paid more than half their incomes for housing.
- Even if age- and race-specific cost burden shares return to 2000 levels by 2015, 16.2 million households would still be severely housing cost burdened in that year.
- Nearly half of working-age households with incomes between one and two times the federal minimum wage full-time equivalent spent more than half of their incomes on housing in 2007.

- No household earning the equivalent of the full-time minimum wage (\$11,500) can afford a modest two-bedroom apartment at the federal fair market rent anywhere in the US.
- Households in the bottom expenditure quartile devoting more than half their incomes to housing on average spent \$123 less each month on food, \$86 less on healthcare, and \$20 less on clothing than bottom quartile households that were paying less than 30 percent of income for housing. These households had about \$485 a month available for all other expenses after paying for housing.
- Even before the recession began, the share of minority homeowners with equity cushions of less than 5 percent of the home's value was twice as high as that of whites (6.9 percent versus 3.4 percent).
- A January 2007 count put the number of homeless at 671,888. Two-fifths of the homeless were sleeping on the street or in other places unfit for human habitation. More than a third of the homeless were members of families with children.

DRIVERS OF FUTURE HOUSING DEMAND

- Household formations were already on the decline when the recession started to hit in December 2007. Annual net additions fell from 1.37 million in the first half of the decade to only 1.06 million in 2005–8.
- Real median household incomes in all ten-year age groups under age 55 have not increased since 2000. For the first time in at least 40 years, there is a chance that the real median household income for nearly all age groups will be lower at the end of the decade than at the start.
- The echo boomers are entering their peak household formation years of 25–44 with more than five million more members than the baby boomers had in the 1970s.
- Baby boomers will boost the number of retiree households in the next decade. According to JCHS household projections, the number of households with heads aged 65–74 will increase by at least 6.7 million in 2010–20, and the number of households with heads aged 75 or over will increase by at least 2.4 million.
- Even under low immigration assumptions, minorities will fuel 73 percent of household growth in 2010–20, with Hispanics leading the way at 36 percent. As a result, the minority share of households is projected to increase from 29 percent in 2005 to 35 percent in 2020.

SPONSORS

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DATA

The Joint Center uses current data from the Census Bureau, the Department of Housing and Urban Development, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Center for Budget and Policy Priorities, the Conference Board, the Consumer Bankruptcy Project, Credit Suisse, the Department of Agriculture, Deutsche Bank, the US District Courts, the Energy Information Administration, the Federal Housing Finance Agency, the Federal Reserve, First American CoreLogic, Freddie Mac, Moody's Economy.com, the Mortgage Bankers Association of America, M|PF YieldStar, the National Association of Realtors®, the National Council of Real Estate Investment Fiduciaries, the National Low Income Housing Coalition, the National Multi Housing Council, the Pew Center on the States, Standard and Poor's, and Zillow.com to develop its findings.

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