The Silent Housing Crisis:

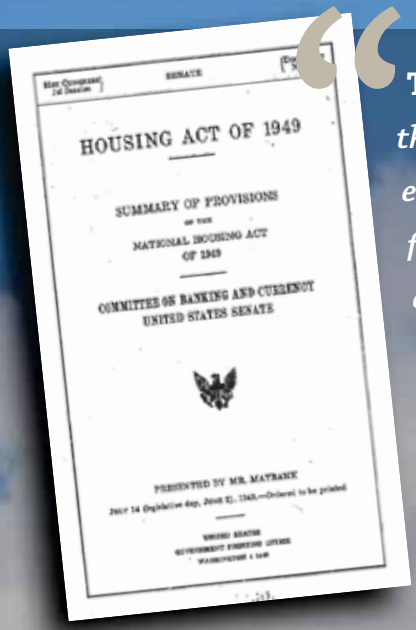
A Snapshot of Current and Future Conditions

J. RONALD TERWILLIGER
FOUNDATION
for
HOUSING AMERICA'S FAMILIES

J. Ronald Terwilliger Foundation for Housing America's Families

About the Foundation

Established in 2014, the *J. Ronald Terwilliger Foundation for Housing America's Families* seeks to recalibrate federal housing policy so that it more effectively addresses our nation's critical affordable housing challenges and meets the housing needs of future generations. The Foundation will offer a set of practical suggestions for tax, spending, and mortgage finance reform that is responsive to the ongoing crisis in housing and the profound demographic changes now transforming America.



HOUSING ACT OF 1949

SUMMARY OF PROVISIONS
OF THE
NATIONAL HOUSING ACT
OF 1949

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

PRESENTED BY MR. MAYBANK

> **THE HOUSING ACT OF 1949** *also establishes as a national objective the achievement as soon as feasible of a decent home and a suitable living environment for every American family, and sets forth the policies to be followed in advancing toward that goal. These policies are thoroughly consistent with American ideals and traditions. They recognize and preserve local responsibility, and the primary role of private enterprise, in meeting the Nation's housing needs. But they also recognize clearly the necessity for appropriate Federal aid to supplement the resources of communities and private enterprise.*

Statement by President Harry Truman upon signing the Housing Act of 1949

Photo: Wally Gobetz/flickr.com

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Introduction

Today, nearly six years after the Great Recession officially ended, our nation's housing system remains in a state of crisis. Soaring rental demand, an acute shortage of affordable rental homes, significantly tougher mortgage underwriting standards, and an uneven economic recovery have all combined to make housing a source of distress and instability for millions of Americans. With little relief in sight, growing numbers of families find themselves stuck between a rental market they can no longer afford and a homeownership market for which they do not qualify.

A legacy of the Great Recession, the dire state of housing in our country is a "silent" crisis often overlooked by policymakers, ignored by the media and underestimated by the general public, despite deeply impacting millions of families and clouding our nation's future.

Having access to safe and affordable housing has long been recognized as a critical part of America's social compact with its citizens.

Consider these facts:

- **Housing affordability is a significant and growing challenge for millions of American families who live in housing that exceeds their means. Nearly 20 million families spend more than half their income on housing and more than one-third of all U.S. households, almost 41 million in total, pay in excess of 30 percent of their incomes just to cover housing costs.**[1] While our nation's lowest-income households have been hit the hardest, over the past decade, some of the sharpest increases in housing cost burdens have been among moderate-income families.[2]

- For renter households the affordability situation is particularly alarming. The percentage of cost-burdened renter households has doubled over the past 50 years. More than 11 million renter households, constituting 27 percent of all renters, now pay more than half their incomes for housing. In addition, 20.6 million renters, or half of the total renter population, pay in excess of 30 percent.[3] These rent burdens are national in scope, affecting families in rural, suburban, and inner-city areas. Today, rents continue to rise in communities throughout the country, often forcing many lower-income renters to forego purchasing nutritious food, seeking medical help when a health issue arises, or buying clothing and other essentials for their families.

- A major factor contributing to this "rent squeeze" is the acute shortage of rental homes affordable to families with the lowest incomes. For every 100 extremely low-income families who rent, there are just 29 affordable units available in the marketplace, translating into a total shortfall of more than 8 million units.[4] The production of new rental homes that are affordable to those at the lowest end of the income spectrum is woefully insufficient.

- Federal rental assistance provides much-needed help for lower-income families, but only about one in five households eligible for assistance actually receives it.[5] In many communities, federal rental assistance is often allocated through waitlists that can span several years or by lottery.

- The national homeownership rate (seasonally adjusted) now stands at 63.9 percent, its lowest level in 20 years,[6]

...according to the Urban Institute, 62 percent of new housing demand will be rental during this decade (2010-2019).

...our nation is unprepared for the tremendous challenges that a rapidly expanding renter population will pose to the already-strained housing system. Absent a comprehensive and sustained policy response, it is likely that rental cost burdens will only grow in intensity and scope, undermining the stability and dampening the hopes of millions of American families.

falling from its peak of 69.4 percent in 2004. This precipitous drop is the result, in part, of the estimated 5.2 million home foreclosures that have been completed since September 2008.[7]

- The share of total home purchases by first-time homebuyers has hit a 27-year low[8], with student loan debt and higher rents among the factors making it more difficult for young adults to save for a mortgage down payment.
- More than a decade of stagnating household incomes, a phenomenon that began in the late 1990s, continues to weigh heavily on family budgets and puts homeownership out of reach for many lower- and moderate-income families. Some experts predict that the national homeownership rate could eventually stabilize somewhere between a high of 62 percent and a low of 60 percent.

If these facts are not enough to give you pause, consider that over the next five years, America's changing demographics are likely to exacerbate the troubled conditions that define housing today. New household formation by the Millennials, the increasing diversity of the U.S. population, higher expected levels of immigration, and the aging of the 78 million Baby Boomers will all converge in a way that substantially increases the already-strong demand for rental housing. In fact, according to the Urban Institute, 62 percent of new housing demand will be rental during this decade (2010 to 2019).[9]

Most significantly, minorities will be the driving force behind new household formation for the foreseeable future. From 2010 to 2020, it is expected that 8.9 million net new minority households will form, accounting for 77 percent of total household growth during this period.[10] From 2020 to 2030, minorities are projected to account for a staggering 88 percent of household growth. With significantly lower incomes and overall wealth than their white counterparts, many of these households – while desiring homeownership – will simply not have the resources to meet mortgage-underwriting requirements. As a result, renting will be their only housing option.

Unfortunately, our nation is unprepared for the tremendous challenges that a rapidly expanding renter population will pose to the already-strained housing system. Absent a comprehensive and sustained policy response, it is likely that rental cost burdens will only grow in intensity and scope, undermining the stability and dampening the hopes of millions of American families. These conditions, in turn, will exacerbate income inequality, diminish the prospects of social mobility for countless individuals, make us less competitive in the global marketplace, and ultimately hinder America's economic growth.

The stakes are high. Having access to safe and affordable housing has long been recognized as a critical part of America's social compact with its citizens. In the Housing Act of 1949, Congress first established a clear national policy objective: the realization as soon as feasible of "a decent home and suitable living environment for every American family."

It has been more than 65 years since Congress enacted this landmark legislation, yet achievement of this worthy goal remains elusive.

The following pages more fully describe the conditions that define the silent housing crisis in America. A clear understanding of these conditions is necessary if we are to develop new, more effective approaches to help meet the housing needs of the American people both today and in the years ahead.

New Market Realities

...the national homeownership rate stands at 63.9 percent, more than five percentage points below its high in 2004 and comparable to the rate that existed between 1965 and 1995.

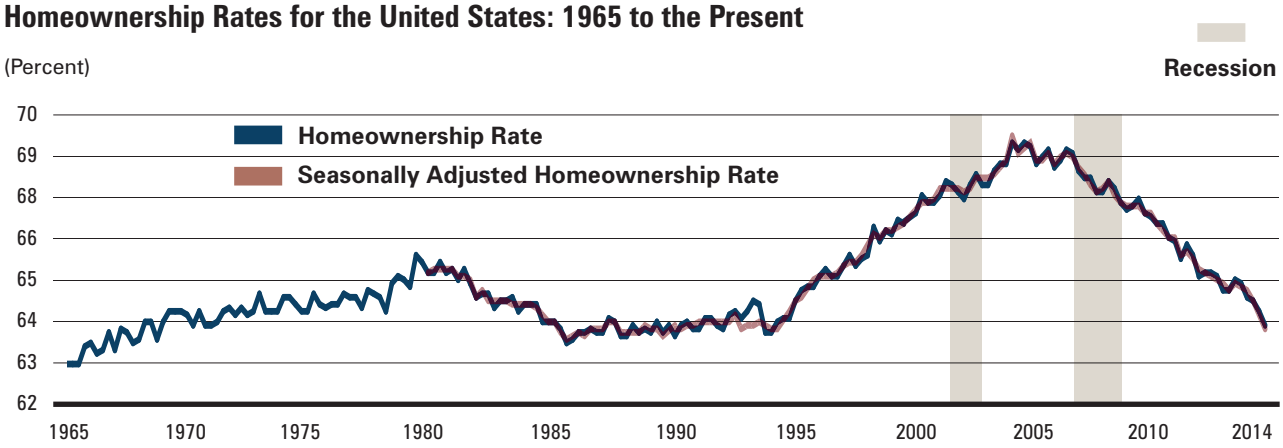
Motivated by an understandable desire to expand the benefits of homeownership to a wider segment of the U.S. population, both President Bill Clinton and President George W. Bush made increasing the percentage of homeowner households a high priority of their administrations. Policies such as federally–supported down payment assistance for first-time homebuyers and a strengthening of the affordable housing goals for Fannie Mae and Freddie Mac were designed to expand the opportunity for homeownership to lower- and moderate-income families. These policies, combined with a favorable low-interest rate environment as well as other factors (including the emergence of "subprime" mortgage products), led to the addition of millions of American families to the homeownership ranks. In fact, by the second quarter of 2004, the national homeownership rate had reached an historic high – 69.4 percent – and some observers were contemplating a rate that would soon hit 70 percent. During this period, the homeownership rates for minority households soared: By the second quarter of 2004, the rate for African-Americans set a new record – 49.7 percent – and one year later in 2005 the rate for Hispanic households reached 50 percent for the first time ever.

With the 2007-2008 financial crisis and the collapse of the homeownership market, these numbers have tumbled: As of the fourth quarter of 2014, the national homeownership rate stands at 63.9 percent, more than five percentage points below its high in 2004 and comparable to the rate that existed between1965 and 1995 and before the federal push for homeownership took off in earnest (See Chart A). The homeownership rates for African-Americans and Hispanics have also dropped dramatically. For African-American households, the rate now stands at just 42.1 percent, and for Hispanics, the rate is 44.5 percent.[11]

Absent a turbo-charged U.S. economy in which income growth is sustained over a significant period of time, the historically high homeownership rates recorded in the run-up to the Great Recession are unlikely to repeat themselves any time in the foreseeable future. More likely, we have returned to the "old normal" where the national homeownership rate rarely crosses the 65-percent threshold. In fact, during the 30-year period from 1965 to 1995, the homeownership rate hovered between 63 percent and 65 percent with little variation outside these two boundaries.[12]

CHART A

Homeownership Rates for the United States: 1965 to the Present



Source: Current Population Survey/Housing Vacancy Survey, Series H-111, U.S. Census Bureau, Washington, DC 20233.
The seasonally adjusted homeownership rates are unavailable prior to 1980.

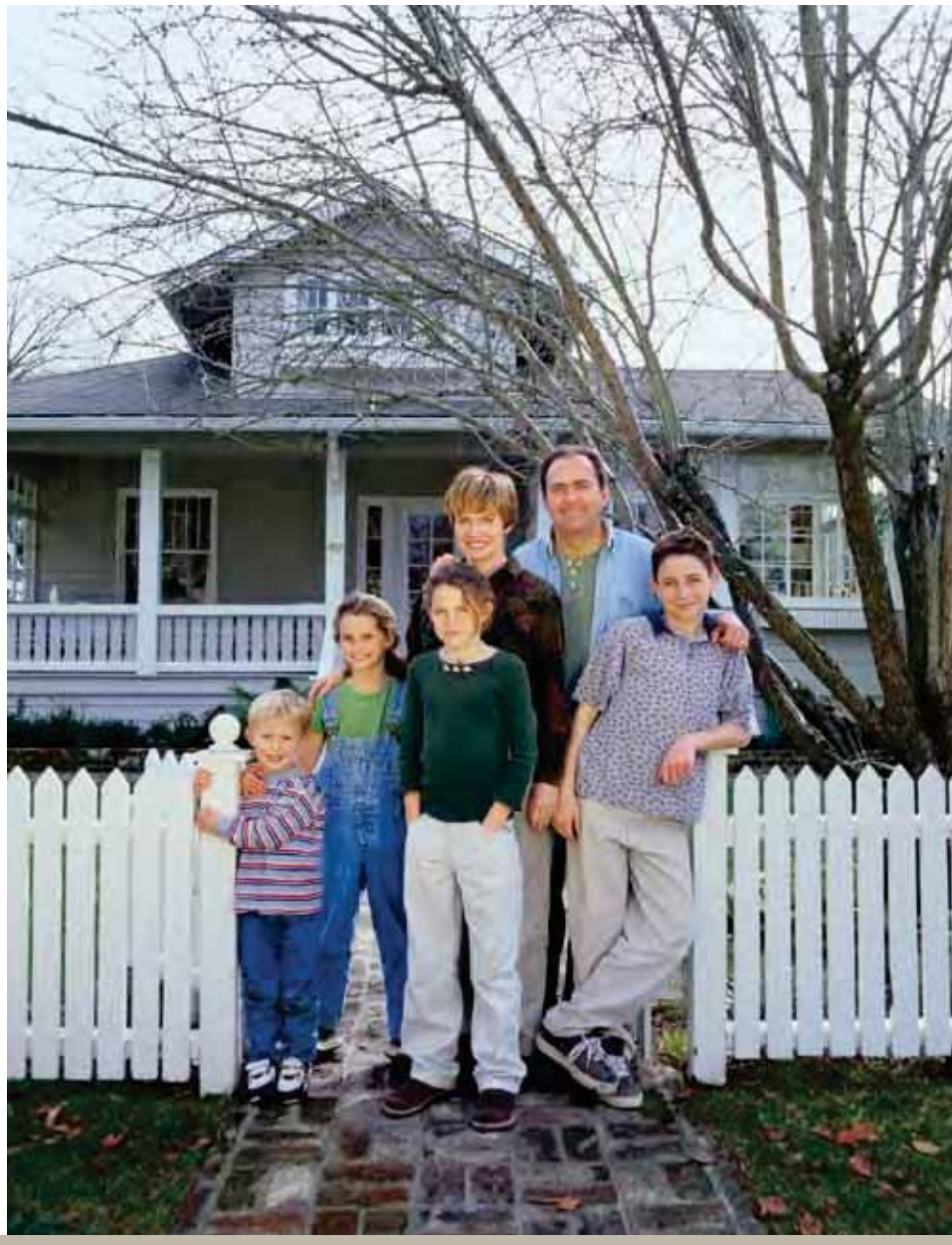
Other analyses, however, are less optimistic and suggest we are headed toward a "new normal" in which the national homeownership rate continues its decline and will fall well below 63 percent. For example, the Urban Institute projects that, by 2030, the homeownership rate could drop to as low as 60.3 percent and barely exceed 62 percent even under the most favorable scenario.[13]

Homeownership Headwinds

Moderate- and lower-income families face a number of powerful headwinds in today's homeownership market. In the short term, more conservative underwriting standards in the form of higher down payment and tougher credit score requirements will continue to make achieving homeownership more difficult, even for those creditworthy households who are prepared to assume the obligations and risks that come with owning a home.

To promote more mortgage lending, the Federal Housing Administration (FHA) and the Federal Housing Finance Agency (FHFA) are attempting to reduce the use of "credit overlays" by lenders who are concerned about being held responsible by the agencies for loan defaults when there are minor defects in underwriting. To help expand access to mortgage credit, the FHFA – along with Fannie Mae and Freddie Mac – have initiated low down payment programs for first-time homebuyers. The FHA has also proposed to reduce the insurance premiums it charges, which have been cited as a major homeownership obstacle for moderate- and lower-income families. Even if successful, these efforts are unlikely to unleash a wave of new mortgage lending to those households with average credit records. In the short term at least, caution will continue to dominate the underwriting process.

Student loan debt is undermining homeownership opportunities for many young adults. The Consumer Financial Protection Bureau reports that student loan debt is approaching $1.2 trillion, an all-time high and the second highest form of consumer debt behind mortgages.[14] In 2013, nearly 70 percent of graduating college seniors carried student loans, with the average borrower owing more than $28,000.[15] With so many young adults burdened with so much debt as they enter the job market and start their careers, it is not surprising that in 2014 the share of first-time homebuyers fell



The Consumer Financial Protection Bureau reports that student loan debt is approaching $1.2 trillion, an all-time high and the second highest form of consumer debt behind mortgages.

to its lowest point in nearly three decades, according to a survey by the National Association of Realtors.[16] New regulatory requirements, such as the "qualified mortgage" (QM) rule that imposes a maximum 43 percent debt-to-income limit for a loan to achieve favorable QM status, will likely act as a deterrent to would-be homeowners carrying these sizable student loan burdens.[17]

Perhaps the strongest homeownership headwind of all is the accumulated impact of more than a decade of household income stagnation and decline. In 2013, the U.S. median household income was $51,939, 8 percent lower than the median income of $56,436 in 2007 (on the eve of the Great Recession) and 8.7 percent lower than the median household income peak of $56,895 that occurred in 1999.[18] As Chart B demonstrates, for households of all racial groups, real median income in inflation-adjusted dollars has fallen from the peak levels that occurred prior to the 2001 recession: In 2013, household income was 5.6 percent lower for whites (falling from $61,733 in 1999 to $58,270), 13.8 percent lower for African-Americans (falling from $40,131 in 2000 to $34,598), 11.1 percent lower for Asians (falling from $75,423 in 2000 to $67,065), and 8.7 percent lower for Hispanics (falling from $44,867 in 2000 to $40,963).[19]

In addition, since the late 1990s, household incomes at just about every income level - from the 10th percentile right on up to the 95th - have either stagnated or declined.[20]

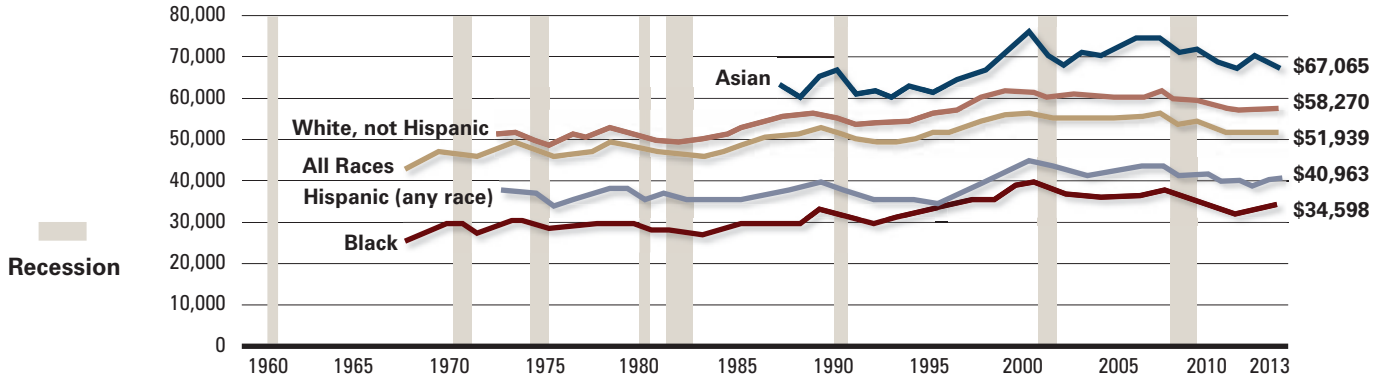
Most problematic for the homeownership market, the Great Recession has profoundly impacted the household incomes of those between the ages of 25 and 44, the group most likely to purchase a home for the first time. Between 2007 and 2012, the real median household incomes of those aged 25 to 34 declined by 8 percent, while those aged 35 to 44 experienced a 7 percent decline.[21] Today, the real incomes of young and middle-aged households are at near-record lows.[22]

The obvious point here is that without adequate incomes potential homebuyers will find it even more difficult to accumulate enough cash for a down payment and be able to meet monthly mortgage payments, particularly if underwriting standards remain as strict as they are today. (Of course, stagnating incomes have also made renting

CHART B

Real Median Household Income by Race and Hispanic Origin: 1967 to 2013

2013 Dollars



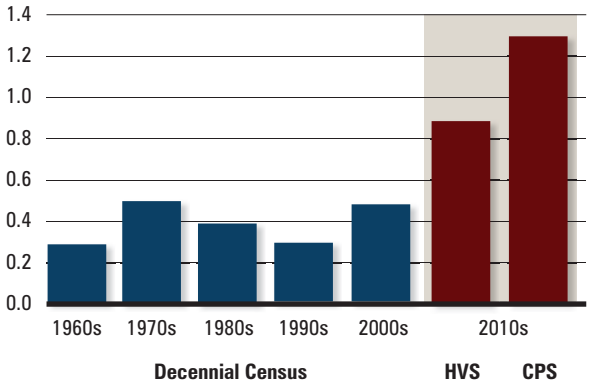
Note: Median household income data are not available prior to 1967.
Source: U.S. Census Bureau, Current Population Survey, 1968 to 2014 Annual Social and Economic Supplements.

more expensive for many families.) While historically low interest rates, combined with sharply reduced home values following the crash of the housing market, have helped make homeownership more affordable,[23] these conditions are unlikely to persist. In fact, home values are gradually rising in many communities, in part because of a reduction in the number of foreclosed and distressed homes available for sale. In addition, interest rates are likely to head upward as the full effects of the Federal Reserve's decision to terminate its "quantitative easing" policy are felt in the bond markets.

CHART C

Generating a Surge in Renter Household Growth

Average Annual Growth in Renter Households (Millions)



Source: Joint Center for Housing Studies of Harvard University, *America's Rental Housing: Evolving Markets and Needs* (2013). JCHS tabulations of US Census Bureau, Decennial Censuses, Current Population Surveys (CPS), and Housing Vacancy Surveys (HVS)

The Growing Number of Renter Households

The flip side of a declining homeownership rate is the tremendous rise in demand for rental housing that has occurred in recent years. According to the Current Population Survey sponsored by the Census Bureau and the Bureau of Labor Statistics, more than one million new households were added annually to the rental ranks between 2005 and 2013, a pace that was more than twice the 400,000 annual average in any decade since the 1960s. Other government surveys show strong growth in the number of renter households in recent years (See Chart C).[24] Many of these new renters are from groups that have traditionally rented – young adults, single persons, and low-income families; but older households, many of whom were former homeowners, have also contributed significantly to the growth in the renter population.[25]

Today, more than 43 million households rent their homes. These households represent more than 104 million individuals, accounting for approximately 33 percent of the U.S. population. Nearly 17 million of these households rent single-family residences or mobile homes, while close to 8 million households rent homes in properties with two to four units. The largest group of renters, those living in buildings with five or more units, accounts for nearly 18 million households.[26]

Families choose to rent their homes for a number of reasons – greater mobility, proximity to jobs and transportation, the inability to come up with a down payment, and the desire to forego responsibility for costly maintenance and upkeep are all commonly cited as reasons. But a major factor contributing to the decision to rent has traditionally been its affordability. With annual incomes ($32,466) that are less than half that of the typical homeowner household ($67,298), the comparative affordability of rental housing has been a critical reason why many renter households do not buy a home.[27]

Unfortunately, this affordability proposition has deeply eroded over the past decade and will only continue to deteriorate if the status quo is preserved. One measure of the increasing *un*affordability of rental housing

...the Great Recession has profoundly impacted the household incomes of those between the ages of 25 and 44, the group most likely to purchase a home for the first time.

While stagnating incomes and a weak economy have helped fuel today's rental affordability crisis, a major contributing factor has been the acute shortage of rental homes that are both affordable and available to those households with the lowest incomes.

can be found in HUD's "worst case needs"* report. According to the most recent report, the number of renters with "worst case needs" stood at 7.7 million in 2013, growing an astounding 49 percent since 2008.[28]

Not surprisingly, rental cost burdens affect those with the lowest incomes most acutely. According to Harvard's Joint Center for Housing Studies, in 2012, more than four out of five households with incomes below $15,000 (the equivalent one would earn working full-time at the federal minimum wage) paid more than 30 percent of their incomes for housing, while more than two-thirds of these renters paid in excess of 50 percent.[29] These cost burdens force many low-income renters to forego purchasing nutritious food, health care, and other essentials in order to ensure there are sufficient funds available to pay the rent each month.[30] This situation is all the more troubling since families with children constitute the largest group of households with severe rental cost burdens.[31]

While stagnating incomes and a weak economy have helped fuel today's rental affordability crisis, a major contributing factor has been the acute shortage of rental homes that are both affordable and available to those households with the lowest incomes.

The Urban Institute estimates that, for every 100 "extremely low-income" renter households (those with incomes at or below 30 percent of the area median), there are just 29 affordable units available in the marketplace, translating into a total shortfall of approximately 8.2 million units.[32] HUD recently reported a slightly more favorable but still unacceptable situation, estimating that, as of 2013, there were 39 affordable and available units for every 100 extremely low-income renter households.[33] HUD also

reported that, as of 2013, for every 100 "very low-income" renter households (those with incomes between 30 and 50 percent of the area median), there were just 65 affordable and available units.[34] Competition from higher-income households further limits the supply of affordable rental homes that would otherwise be available to these lowest-income households.

The millions of foreclosed single-family homes that have entered the rental market in recent years have helped respond to the increased demand for rentals. In fact, more than 3 million foreclosed single-family homes were converted to rental from 2007 to 2011.[35] New construction of multifamily properties (those with 5 units or more) has also picked up significantly in the wake of the Great Recession with annual starts at 339,000 units as of December 2014, approximating the annual average in the period before the Great Recession.[36]

Despite these developments, it is virtually certain that supply will not catch up to increased demand in many local markets absent a concerted effort by the public, private, and non-profit sectors to stimulate and support new production. In fact, just

* HUD defines "worst case needs" as very low-income renters with incomes below 50 percent of the Area Median Income who do not receive government housing assistance and who either paid more than half of their income for rent or lived in severely inadequate conditions, or who faced both of these challenges. In its latest survey, HUD found that inadequate housing caused only three percent of "worst case needs," with lack of affordability being the overwhelming challenge for renters.

to keep pace, the production of new units must not only help meet expected demand but also replace those units no longer in use due to obsolescence, fire, and conversion to market-rate condominiums.

One major concern is the ongoing loss of low-cost rentals, which tend to be older than other rental homes. Although representing a relatively small share of the total rental stock, 650,000 low-cost homes (many of them single-family and in properties with fewer than five units) that rented for less than $400 per month accounted for more than a one-third of the total rentals removed from the market from 2001 to 2011.[37]

In addition, supplying multifamily housing for our nation's lowest-income families is extremely challenging because of the substantial gap between development costs and what these families can afford to pay in rent. In practice, most affordable housing developments depend upon a number of different subsidized financing streams, both equity and debt, that are only available to a developer if certain affordable housing conditions are met. Meeting these conditions, as well as complying with land-use, zoning and other regulatory restrictions, can be complex, time-consuming, and costly. As a result, a significant level of subsidy is generally necessary to make these developments economically viable. In an era of fiscal austerity and budget sequestration, unprecedented reductions in federal housing subsidies have adversely impacted production of affordable housing.

Policymakers must also contend with the tens of thousands of multifamily units that become obsolete each year and are removed from the market. Complicating matters further is the fact that the "affordability" restrictions on some 2 million government-subsidized affordable rental homes are expected to expire at some point over the next decade. While many of these units will remain in the affordable stock, others (particularly in those in communities where rental demand is strong) will likely covert to market-rate properties with considerably higher rents.[38]

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Demographic Trends

...few groups suffered more from the economic downturn than young adults whose median incomes have dropped to levels not seen since the 1970s.

In the absence of remedial action, today's high rental cost burdens – triggered by a weak economy, the lack of household income growth, higher demand as millions of households have transitioned from homeownership, and the severe shortage of affordable and available homes for our nation's lowest-income families – may be further exacerbated by new pressures stemming from the changing demographics of America.[39]

The key elements of these changing demographics are:

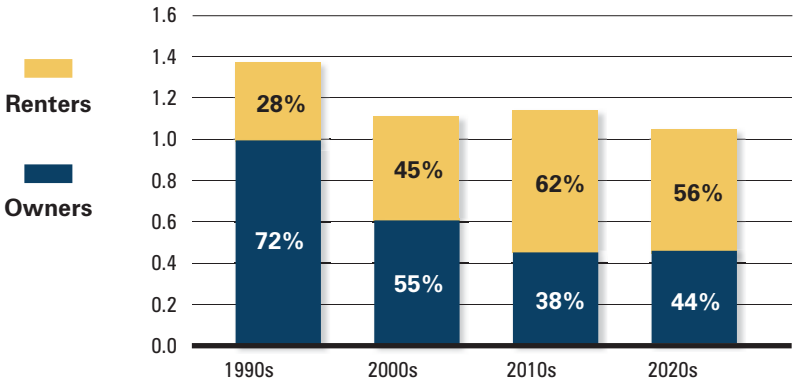
- New household formation by young adults;
- The increasing diversity of the U.S. population;
- Higher expected annual immigration levels; and
- The aging of the 78 million Baby Boomers.

Together, these demographic trends will all converge in a way that substantially increases the already-strong demand for rental housing. In fact, according to the Urban Institute, 62 percent of new housing demand will be rental during the decade of 2010 to 2019, while 56 percent will be rental during the decade of the 2020s. To put these figures in perspective, the mix between ownership and rental demand was reversed during the two previous decades: 72 percent of new housing demand was for ownership housing during the 1990s and 55 percent during the 2000s (See Chart D).[40]

CHART D

Most New Housing Demand will be Rental

Annual Household Growth (Millions)



Source: Urban Institute

New Household Formation by Millennials

The Great Recession and the weak recovery that followed put a tremendous damper on the formation of households by our nation's young adults. With the nation's economy in disarray, millions of Millennials opted to sit on the housing sidelines, many living with their parents or "doubling up" with roommates. From 2000 to 2007, the number of new households formed each year averaged approximately 1.2 million. Yet, as the economy faltered, annual new household growth declined dramatically, with estimates of new households averaging between 600,000 and 800,000 during the years 2007 to 2013.[41] Much of the decline in new household growth is due to the reluctance of Millennials to strike out on their own in the housing market. Even today, with a stronger economy, new household formation by Millennials remains relatively weak: half of those aged 20 to 24 and one-fifth of those aged 25 to 29 still live with their parents.[42]

The huge pent-up demand represented by the Millennials offers great potential for the housing market. If the economy continues to improve, household formation among Millennials – many of whom have delayed marriage and remain childless – will likely increase as well. But few groups suffered more from the economic downturn than young adults whose median incomes have dropped to levels not seen since the 1970s. As they form households, many will initially choose to rent, often in urban areas close to jobs and other opportunities, thereby increasing demand for the existing rental stock and putting additional pressure on the need for more affordable rental housing. We are already seeing the effect of this demand in the 25 largest rental markets, where rents have increased, sometimes substantially, over the past year (See Table 1, page 23).

The Increasing Diversity of America

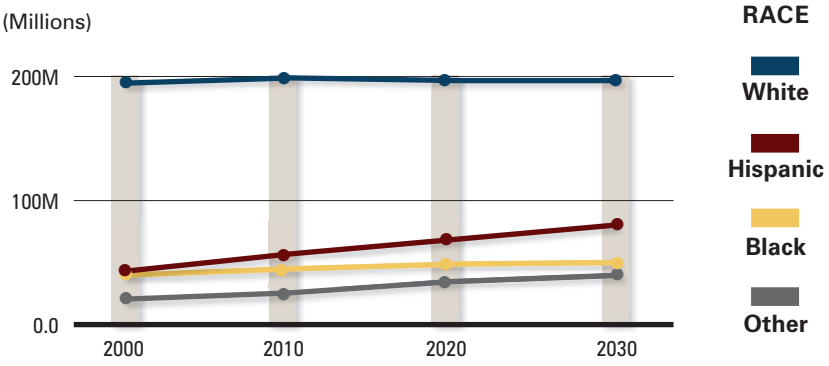
Unlike many industrialized nations, the population of the United States is poised to increase significantly in the coming decades. The Urban Institute projects that the U.S. population will grow from more than 320 million today to nearly 334 million in 2020 and more than 358 million by 2030 (assuming average rates of birth, death, and migration).[43]

During this period, America will become increasingly diverse with minorities expected to constitute 40 percent of the U.S. population by 2020 and exceeding 44 percent by 2030.[44] The rapid and substantial growth in the number of Hispanics will be a big part of this story (See Chart E).

CHART E

Race Trends, 2000-2030

Distribution of age and race from 2020 to 2030.
(assume average rates of birth, death, and migration)



Source: Mapping America's Future / urban.org / Urban Institute

Photo: The Bozzuto Group

Minorities will be the driving force behind new household formation over the coming decades.

Minorities will be ***the driving force*** behind new household formation over the coming decades. According to the Urban Institute, from 2010 to 2020, 8.9 million net new minority households will form, accounting for 77 percent of projected household growth during this period. From 2020 to 2030, an additional 9.1 million net new minority households will form, accounting for a staggering 88 percent of projected household growth in this decade.[45] In short, the future vitality of the housing market will depend upon meeting the housing needs of these new minority households (See Chart F).

Unfortunately, the median incomes of African-American and Hispanic families continue to lag significantly behind those of their white counterparts. Remarkably, in 2012, the median income of a minority household aged 25 to 34 was $20,000 below that of a white household of the same age. In addition, minority household wealth is extremely low. According to a recent analysis by the Pew Research Center, in 2013, the median net worth of an African-American household was just $11,000, nearly 13 times less than the $141,900 median net worth of white households. In 2013, the median net worth of Hispanic households

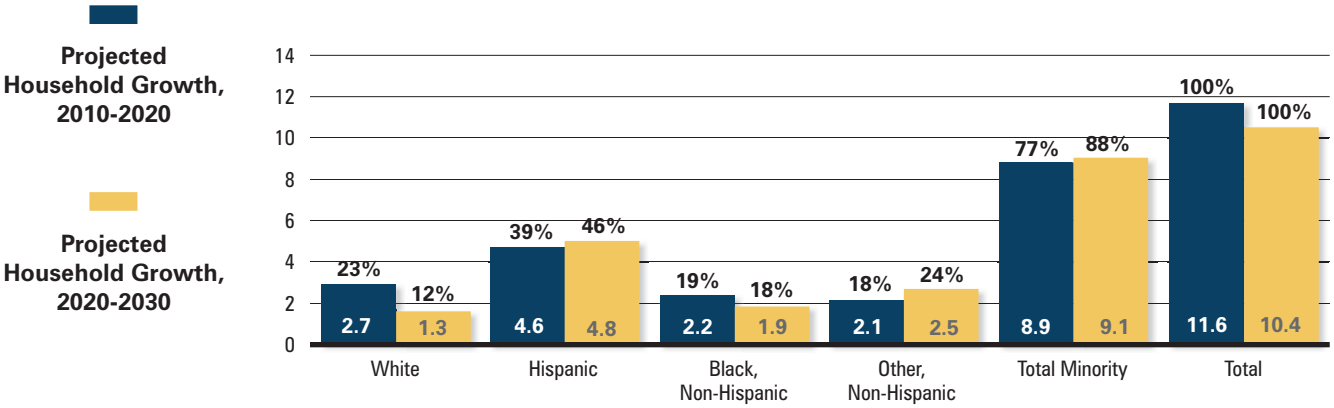
was also very low – just $13,700, about ten times less than that of whites (See Chart G).[46] While the Great Recession negatively impacted the net wealth of all racial groups, the subsequent decline in wealth has been most pronounced among African-American and Hispanic families, many of whom lost a major asset – their home – following the collapse of the homeownership market.

Consistent with these findings, the median net wealth of minority renters is particularly low. Harvard's Joint Center for Housing Studies calculated that, in 2010, the median net worth of African-American renters was just $2,100, and was $4,500 for Hispanic

CHART F

Housing Demand will Increase, Largely Driven by Minorites

Net New Households (Millions)

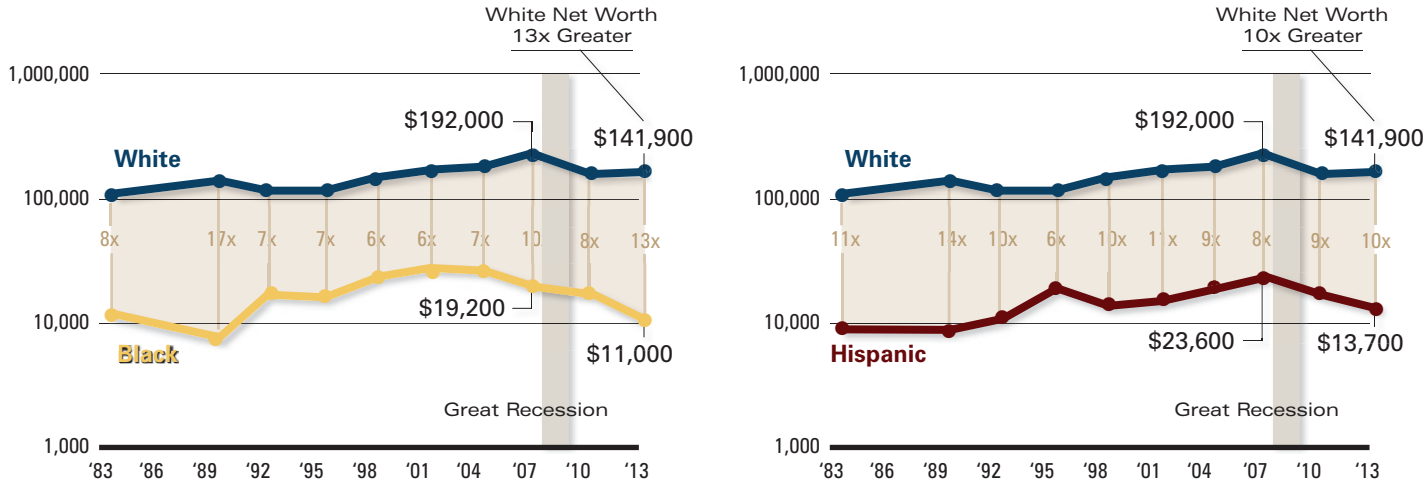


Source: Urban Institute

CHART G

Racial, Ethnic Wealth Gaps Have Grown Since Great Recession

Median Net Worth of Households, in 2013 Dollars



Source: Pew Research Center, "Wealth inequality has widened along racial, ethnic lines since end of Great Recession" (December 12, 2014). Note: Blacks and whites include only non-Hispanics. Hispanics are of any race.

renters. Cash savings accounted for less than $1,000 of this new worth, "leaving all of these renters without much cushion against emergencies, let alone funds for a down payment on a home."[47]

In the coming years, the homeownership prospects for many minority families, who will constitute an increasingly larger share of the U.S. population, will be severely limited. While desiring homeownership, many will simply not have the resources in the form of income and wealth to meet mortgage down payment and other requirements. As a result, renting will be their only housing option.

Higher Annual Immigration Levels

The foreign-born population in the United States has traditionally been a strong source of housing demand. From 2001 to 2007, foreign-born households accounted for 30 percent of overall household growth.[48] However, immigration to the U.S. slowed considerably as a result of the Great Recession and household formation among the foreign-born fell as the economy faltered and employment opportunities dried up. In fact, in 2009 and 2010, the number of foreign-born households in the U.S. registered a net decline.[49] More recently, however, immigration to the U.S. has picked up and the foreign-born share of overall household growth has expanded to nearly 40 percent.[50]

If net annual immigration returns to the levels recorded prior to the Great Recession – ranging from 900,000 to 1.2 million between 2000 and 2006 – this trend will have a significant impact on the housing market and will certainly spur increased demand for rental housing. Soon after their arrival to the United States, foreign-born households often seek out multifamily rental housing in high-density areas near jobs and other opportunities.[51] Many are attracted to "gateway cities" such as Houston, Miami, Los Angeles and New York where they can live close to others who have also settled there from their home countries.[52]

Photo: The Bozzuto Group

The Aging of the Baby Boomers

The aging of the Baby Boomers (those born between 1946 and 1964 and one of the largest demographic cohorts in American history) will have a major impact on the future housing market. By 2030, the number of Americans aged 65 or older is expected to increase to nearly 73 million and those over 85 will near nine million. By 2040, the number of Americans aged 65 or older will approach the 80-million mark (See Chart H). At the same time, older Americans will constitute an increasingly larger share of the total U.S. population.

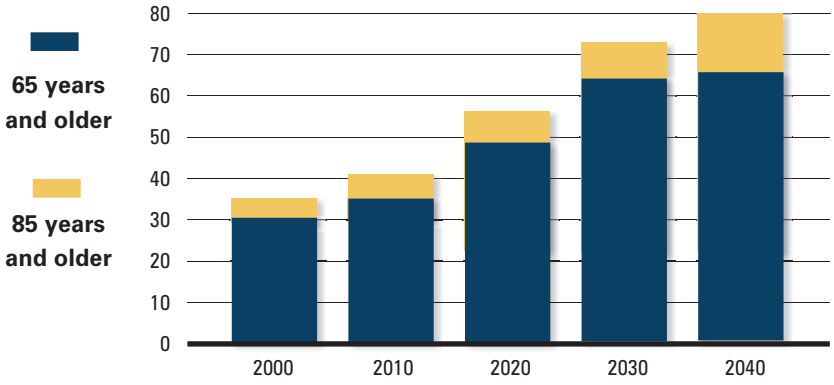
Housing affordability will also continue to be a challenge for seniors in the coming years.

Most seniors will seek to "age in place" as long as possible in their own homes, but many homes lack the basic structural features that can support safe, independent living.[53] Other seniors will seek to downsize to smaller rentals injecting additional demand into the rental market. According to Harvard's Joint Center for Housing Studies, the number of renters over the age of 65 will increase by 2.2 million over the coming decade and account for a significant share of total rental household growth.[54] Many will likely seek rental homes close to transportation options and in communities where other seniors live. Ensuring these rental homes have the necessary structural features and access to services to support senior living will be a significant concern.

CHART H

U.S. Population Aged 65 and Older

Annual Household Growth (Millions)



Source: 2000 and 2010 counts from U.S. Census Bureau, "Summary File 1, Matrices DP-1. Profile of General Demographic Characteristics: 2000 and 2010." *Decennial Census* (Washington, D.C.: 2001 and 2012); projections from U.S. Census Bureau, "Table 2, Projections of the Population by Selected Age Groups and Sex for the United States: 2015 to 2060." *2012 National Population Projections: Summary Tables.*

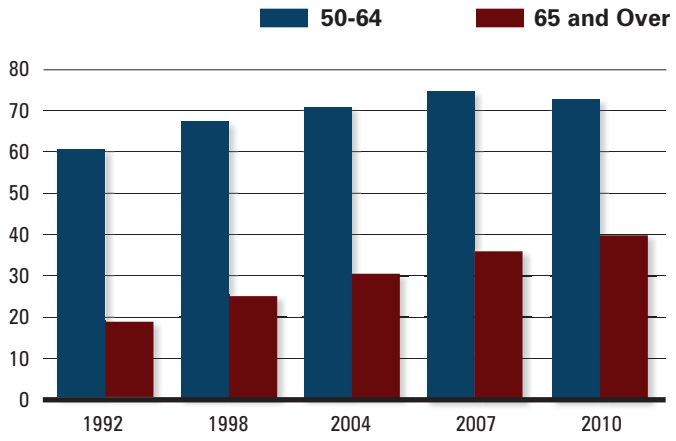
Housing affordability will also continue to be a challenge for seniors in the coming years. Today, among those aged 65 and over, about half of all renters and half of those homeowners still holding mortgages pay thirty percent or more of their incomes just to cover housing costs.[55] In addition, 30 percent of senior renters and 23 percent of senior owners with mortgages have housing cost burdens that exceed 50 percent of their incomes.[56] As minorities become an increasingly larger share of the overall U.S. population, these cost burdens among the elderly are likely to intensify and grow.

Substantial housing costs will affect the ability of seniors to access and finance long-term services and supports (LTSS). An estimated seventy percent of those who reach age 65 will eventually require some form of LTSS to assist with the activities of daily living such as bathing, dressing, and medication management.[57] The fact that homeowners are carrying larger mortgage balances later into the senior years will also affect the ability of seniors to live independently and finance their retirement needs (See Chart I). Adding to these concerns is the fact that large numbers of seniors and those approaching retirement have little or no personal savings.[58]

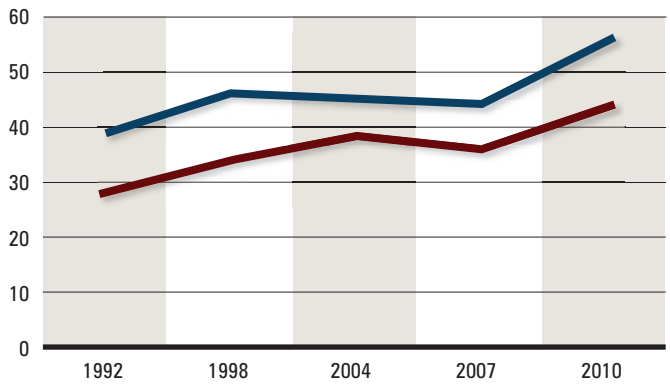
CHART I

Households Are Carrying Much More Mortgage Debt into Their Retirement Years

Share of Owners with Mortgage Debt by Age Group (Percent)



Average Loan-to-Value Ratio for Owners with Mortgages by Age Group (Percent)



Source: Joint Center for Housing Studies of Harvard University, *Housing America's Older Adults* (2014).
Based on JCHS tabulations of Federal Reserve Board, Surveys of Consumer Finances.
Estimates include only owner households with mortgages on primary residences.

Conclusion

Fashioning a new federal housing policy that effectively responds to both current and future conditions in the housing market is an urgent national imperative.

Today, we find ourselves in an unprecedented situation: Millions of families are shut out of the homeownership market because they are unable to qualify for a mortgage. For many, accumulating the necessary funds for a down payment or to make the monthly mortgage payment are the major obstacles, but higher credit-score and other requirements also serve as barriers. At the same time, a tremendous infusion of rental demand has sent rents soaring. The number of renter households who are now severely cost-burdened has reached new highs. The demographic trends now transforming America will only magnify these challenges in the years ahead and strain a housing system that is already overmatched.

Fashioning a new federal housing policy that effectively responds to both current and future conditions in the housing market is an urgent national imperative. Ensuring that Americans have access to decent, affordable housing is critical to our nation's economic growth and future prosperity. We can no longer afford to stand by as housing becomes a cause of distress for more and more of our fellow citizens rather than the source of stability it should be.

Photo: The Bozzuto Group

CHART E

Rent Trends in the 25 Largest Rental Markets

#	U.S. Metro	Y-o-Y % change in rents, Dec 2014	Median rent for 2-bedroom, Dec 2014	Median rent for 2-bedroom as share of average local wage
1	Miami, FL	7.4%	2300	57%
2	Los Angeles, CA	7.0%	2450	53%
3	New York, NY	9.3%	3200	52%
4	Oakland, CA	11.6%	2400	45%
5	San Francisco, CA	10.8%	3600	45%
6	Riverside-San Bernardino, CA	5.0%	1500	44%
7	Orange County, CA	7.4%	2050	44%
8	San Diego, CA	4.1%	1950	42%
9	Cambridge-Newton-Framingham, MA	6.8%	2250	39%
10	Boston, MA	4.3%	2300	39%
11	Newark, NJ	7.1%	2100	37%
12	Chicago, IL	6.0%	1750	37%
13	Baltimore, MD	8.7%	1550	35%
14	Washington, DC	2.9%	2000	34%
15	Denver, CO	14.1%	1500	31%
16	Philadelphia, PA	7.5%	1500	31%
17	Seattle, WA	6.1%	1700	31%
18	Portland, OR	8.8%	1300	30%
19	Tampa-St. Petersburg, FL	7.5%	1100	29%
20	Dallas, TX	5.4%	1400	29%
21	Atlanta, GA	5.9%	1250	28%
22	Minneapolis-St. Paul, MN	3.2%	1300	28%
23	Houston, TX	3.1%	1400	27%
24	Phoenix, AZ	8.6%	1050	26%
25	St. Louis, MO	8.5%	900	22%

Source: Trulia Rent Monitor

Endnotes

1 Joint Center for Housing Studies of Harvard University, *State of the Nation's Housing* 2014 (2014), p. 27. A housing unit is generally considered "affordable" if monthly housing costs do not exceed 30 percent of income.

2 See Daniel McCue, *The Burden of High Housing Costs*, Cascade (No. 86, Winter 2015), Federal Reserve Bank of Philadelphia.

3 Ibid.

4 See Housing Assistance Matters Initiative, *Mapping America's Rental Housing Crisis*, Urban Institute (accessed on February 2, 2015), available here: http://www.urban.org/housingaffordability. The U.S. Department of Housing and Urban Development defines an "extremely low-income household" as one making 30 percent or less of the area median income.

5 In 2011, approximately 5 million out of a total of 27 million renter households with incomes below 80 percent of the area median income, the eligibility threshold for new admissions to rental assistance through the U.S. Department of Housing and Urban Development, reported receiving such assistance.

6 See U.S. Census Bureau, *Residential Vacancies and Homeownership in the Fourth Quarter 2014* (January 29, 2015); see also Homeownership hits 20-year low in 4Q14, HousingWire (January 29, 2015).

7 See CoreLogic Reports 46,000 Foreclosures Completed in September (October 29, 2014), available here: http://www.multivu.com/players/English/71280520-corelogic-national-foreclosure-report-september/.

8 National Association of Realtors, *NAR Annual Survey Reveals Notable Decline in First-time Buyers* (November 3, 2014), available here: http://www.realtor.org/news-releases/2014/11/nar-annual-survey-reveals-notable-decline-in-first-time-buyers.

9 Laurie Goodman and Rolf Pendall, *Changing Demographics: Implications for the Housing Market*, presentation to the J. Ronald Terwilliger Foundation for Housing America's Families, January 7, 2015, Slide 6.

10 Ibid. at Slide 5.

11 U.S. Census Bureau, Residential Vacancies and Homeownership in the Fourth Quarter 2014 (January 29, 2015), Table 7.

12 See U.S. Census Bureau, H*ousing Vacancies and Homeownership* (CPS/HVS), Historical Tables, Table 14. Quarterly Homeownership Rates for the U.S. and Regions: 1965 to the Present, available here: http://www.census.gov/housing/hvs/data/histtabs.html.

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14 Rohit Chopra, Consumer Financial Protection Bureau, *Student Debt Swells, Federal Loans Now Top a Trillion* (July 17, 2013).

15 The Project on Student Loan Debt, Institute for College Access and Success, State by State Data, available here: http://projectonstudentdebt.org/state_by_state-data.php.

16 National Association of Realtors, *NAR Annual Survey Reveals Notable Decline in First-time Buyers* (November 3, 2014), available here: http://www.realtor.org/news-releases/2014/11/nar-annual-survey-reveals-notable-decline-in-first-time-buyers.

17 See Scott Stucky, *Burden of Student Loans Stifles the Housing Market*, American Banker (March 24, 2014).

18 Carmen DeNavas-Walt and Bernadette D. Proctor, U.S. Census Bureau, Current Population Reports, P60-249, Income and *Poverty in the United States: 2013*, U.S. Government Printing Office, Washington, DC, 2014, 7.

19 Ibid. at 5.

20 Judgment based on information contained in Income and *Poverty in the United States: 2013,* Table A-2; see also R.A., *Stagnation for Everyone*, The Economist (September 17, 2013), available here: http://www.economist.com/blogs/freeexchange/2013/09/incomes.

21 Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2014* (2014), 3.

22 Ibid. at 15. A recent study by Fannie Mae shows that the homeownership rate even for "prime" first-time home-buying candidates (households with a median age ranging from 30 to 32, college-educated, with incomes exceeding $95,000 in 2012 dollars, and consisting of married couples with minor children) fell by 8.6 percentage points between the housing market peak in 2006 and 2012. Fannie Mae, *Upper-Income, Educated, Married with Children, and Still Not Buying: Declining Homeownership among "Prime" First-Time Home Buying Candidates*, Fannie Mae Housing Insights (August 18, 2014). In addition to student loan debt and tighter underwriting standards, the study suggests that lowered expectations about future income gains, fear of future job loss, and changing assessments of the future investment returns on homeownership have negatively impacted the homeownership rate among these "prime" first-time home-buying candidates.

23 See National Association of Realtors, Housing Affordability Index, available here: http://www.realtor.org/sites/default/files/reports/2015/embargoes/hai-11-2014/hai-11-2014-housing-affordability-index-01-09-2015.pdf.

24 *The State of the Nation's Housing 2014*, 4, 22.

25 Ibid. at 22.

26 This information was taken from National Multifamily Housing Council, *Quick Facts: Resident Demographics* (http://www.nmhc.org/Content.aspx?id=4708) (accessed on February 3, 2015).

27 American Community Survey, *Median Household Income the Past 12 Months (in 2013 Inflation-Adjusted Dollars) by Tenure*, 2009-2013 American Community Survey 5-Year Estimates, U.S. Census Bureau.

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30 Ibid. at 32.

31 Barry Steffen et al., *Worst Case Housing Needs 2011: Report to Congress*, U.S. Department of Housing and Urban Development (August 2013), 5.

32 See Housing Assistance Matters Initiative, *Mapping America's Rental Housing Crisis*, Urban Institute (accessed on February 2, 2015), available here: http://www.urban.org/housingaffordability.

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41 *State of the Nation's Housing 2014*, 12-13.

42 Ibid. at 13.

43 See The Urban Institute, *Mapping America's Futures*, available here: http://datatools.urban.org/features/mapping-americas-futures/#map.

44 Ibid. See the section entitled "Age and Race Trends, 2000-2030."

45 Laurie Goodman and Rolf Pendall, *Changing Demographics: Implications for the Housing Market*, presentation to the J. Ronald Terwilliger Foundation for Housing America's Families, January 7, 2015, Slide 5.

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47 Joint Center for Housing Studies of Harvard University, *State of the Nation's Housing 2013* (2013), 14.

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49 Ibid.

50 *State of the Nation's Housing 2014*, 13. Immigration to the U.S. did decline modestly in 2013 after three years of growth. See Neil Shah, Fewer Immigrants Came to the U.S. Last Year, Wall Street Journal, January 23, 2014.

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52 Ibid.

53 Henry Cisneros, "New Visions for Aging in Place," in *Independent for Life: Home and Neighborhoods for an Aging America*, ed. Henry Cisneros, Margaret Dyer-Chamberlain, and Jane Hickie, Stanford Center on Longevity (2012), 8.

54 *State of the Nation's Housing 2014*, 26.

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56 Ibid.

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