

Housing Recovery Still Faces Many Challenges

The latest annual report from the Joint Center for Housing Studies sees a market whose future growth is driven by young and immigrant buyers.

By: John Caulfield

Related Articles

The bad news has been the worst economic recession since the 1930s. The good news is the housing market has been showing some signs of leading the nation out of that recession.

The uncertainty, though, lies in predicting the timing, speed and depth of a housing recovery that hinges on the reversal of so many variables—including rising unemployment, sinking home values, and tightening mortgage credit—and their impact on immigration trends and demand among younger home buyers.

That, in essence, is the theme of “The State of the Nation’s Housing: 2009,” the annual report on where the housing market was, is, and might be, which its publisher, the Joint Center for Housing Studies at Harvard University, officially releases today. (A downloadable version of this 44-page report is available at www.jchs.harvard.edu.)

Builders looking for clues on which to base their production and growth plans will find in this report a sobering assessment of current market conditions and what could be ahead, at least in the short term.

“Although there are some signs of improvement or at least steadiness in new construction and sales, housing starts stand near 60-plus-year lows,” says Nic Retsinas, the Joint Center’s director. “Any life in home sales is coming from distressed foreclosure sales, temporary first-time buyer tax credits, and low interest rates that moved higher in recent weeks.”

Eric Belsky, the Joint Center’s executive director, adds a note of resignation when he states that “[t]he best that can be said of the market is that house price corrections and steep cuts in housing production are creating the conditions that will lead to an eventual recovery.” For the present, though, “markets remain under considerable stress,” Belsky says.

The report provides valuable—albeit bleak—perspective about a market where, for the first time on record, households cut their spending and net borrowing in 2008. One of the reasons behind this was plummeting home values that, as of March 2009, left more than 14 million homeowners with houses worth less than their outstanding mortgages, according Moody’s Economy.com estimates.

Another reason was that more people were losing their jobs: 5.7 million, in fact, between December 2007 and April 2009. Eleven million people were either working part-time involuntarily or had stopped looking for work altogether. (The job picture continues to send out mixed signals. The Labor Department reported that for the week ended June 6, continuing jobless claims fell by 148,000 to 6.68 million, their lowest level since May 9. But initial claims for that week rose by 3,000.)

Foreclosures Foment Fear

It's little wonder, then, that consumer confidence last year collapsed to a low not seen since the 1970s. Confidence levels aren't likely to improve, either, if the Harvard Joint Center report is on target when it projects that "for the first time in at least 40 years, there is a chance that the real median household incomes for [age groups under 55] will be lower at the end of the decade than at the start."

A manifestation of consumers' fears and anxieties has been foreclosures. A total of 3.2 million homeowners entered foreclosure in 2007 and 2008. At the end of 2008, first-lien loans in foreclosure stood at 3.3% of all loans—an increase of 62% in one year. The National Association of Realtors estimated that foreclosed homes accounted for more than 30% of existing home sales last year, further exacerbating the declines in prices and value of other new and existing homes. By the end of last year 34 states had adopted foreclosure prevention laws and nine others instituted foreclosure moratoriums. Yet foreclosures have continued to rise this year, albeit at a somewhat slower pace.

Any talk of a housing recovery is moot until foreclosed inventory shrinks, unemployment rates abate and banks make mortgages available for more buyers. But despite all of the negative factors and influences it cites, the Joint Center's report still finds room for some guarded optimism, if not necessarily for this year but beyond. "While it is too soon to tell whether housing markets will stabilize in 2009, conditions that could support a recovery are taking shape," it states. For one thing, deep production cuts by builders reduced inventories of new homes "to near parity with long-run demand entering 2009." And based on today's median home prices, conservative lending standards, and a conventional 30-year fixed-rate mortgage, "affordability for home buyers has returned at the national level and in many metro areas."

Immigrants and Echo Boomers

Reflecting its own ambivalence about the future, the Joint Center bases its assumptions about housing demand on two projections of immigration into the United States. If net annual immigration rises to 1.5 million people in 2020 (from 1.1 million in 2005), then household growth in America between 2010 and 2020 could total as much as 14.5 million. However, if annual net immigration rises at half of that pace, then household growth during that decade would be more like 12.5 million, or about the same as it was between 1995 and 2005. "Future immigration levels remain a wild card," the report states.

The reason why the Joint Center doesn't think less immigration would result in even lower household formation is because of its expectation that buyer demand among the Echo Boom generation—which is five million people larger than the Baby Boomers—will be high enough to drive the housing industry's growth "for the next 10 years." However, echo boomers "will likely enter the housing market with lower real incomes than people the same age did a decade ago," and therefore might be more open initially to rental housing.

Regardless of what happens with immigration, the Joint Center projects that minorities will fuel 73% of the household growth between 2010 and 2020, with Hispanics' share of total households rising to 35%, from 29% in 2005.

Income Issues

Among all buyer groups, married couples without children (which include empty nesters) will be the fastest-growing household type, followed closely by single-person households.

But all buyers are going to face challenges, perhaps the greatest of which could be how much of their total incomes people need to spend on shelter. At the end of 2007, 30% of all households were spending between 30% and 50% of their incomes for housing, and another 12% were spending more than half.

“It remains to be seen whether the incidence of cost burdens will increase as job losses continue to mount or retreat in the face of falling house prices,” the report states. “But even if age- and race-specific shares return to 2000 levels by 2015, a grim 16.2 million households would still be severely housing cost burdened in that year.”