Harvard's State of Housing Report Says Home Construction Now Adding to GDP

By: Jann Swanson | Thu, Jun 14 2012, 11:41 AM

Steadier job growth and improving consumer confidence are now boosting home sales and home prices may finally find a bottom this year according to the latest ***State of the Nation's Housing*** report released this morning. The report, produced by the Joint Center for Housing Studies of Harvard University, says further that stronger home sales should pave the way for a pick-up in single-family construction over the rest of 2012.

Conditions, however, will keep this recovery "**subdued**." The backlog of nearly 2 million loans in foreclosure means that distressed sales will remain elevated and will keep a downward pressure on prices and another 11.1 million homeowners are underwater on their mortgages, dampening both sales of new homes and investment in existing units. While vacancies have been declining the report notes, they still remain well above normal, holding down demand for new construction in many markets.

What the for-sale market needs most, the authors say is a sustained increase in employment. This might in turn bring household formation back to normal levels. The depressed pace of homebuilding has been a major factor in hiring and pulled down growth in the gross domestic product (GDP) from 2006 to 2010. Since the beginning of 2011, however, both home construction and home improvement spending have made a positive contribution to GDP in four out of five quarters.

Another **bright spot is the rental market**; the number of renters surged by 5.1 million over the decade of the 2000s, the largest decade-long increase in the postwar era. This reflects not only growth in those populations which are historically prone to rent - the young, minority, and low income households, but foreclosures have driven others into the rental market.

Still the rental market has not fully benefited from the large echo-boom generation because the recession has forced a lot of young people to put off leaving home which usually means a move into rental housing. Once the economy improves the echo-boomers should give the market a significant lift.

The rising demand for rentals has sparked rent increases in many parts of the country; 38 of the 64 markets tracked by MPF research had rent increases that outstripped inflation and all but one of the remainder (Las Vegas) had at least a nominal increase in 2011. Even in some cities hard hit by foreclosures and the economy in general (Detroit, Cleveland) rents are rising.

The increase in rents has, in turn, helped to stabilize the multifamily property market where prices are were reported up by 10 percent in the fourth quarter of 2011 from one year earlier and multifamily construction starts more than doubled from its trough to a 225,000 unit annual rate, providing a welcome boost to construction.

Homeownership continues to slide, dipping to 66.1 percent in 2011 from 66.8 percent a year earlier and 69 percent at its peak in 2004, but it is still higher than in the period from 1980 into the early 1990s. Rates for older households continue to climb as the population ages, but the homeownership rate for younger households will probably continue to decline over the next few years.

The number of new homes added to the **housing stock** in the 2002-2011 period was lower than in any other ten year span since the early 1970s so it is hard to argue that overbuilding is dragging down the market. The excess housing supply is largely a reflection of the slowdown in housing growth which resulted from the decline in the rate at which younger people are forming households as noted above and also because of a sharp drop in immigration. But over the longer run, the growth and aging of the current population should support the addition of about 1.0 million new households per year for the next ten years. Immigration remains an unknown in this calculation, but even assuming net inflows are half what was predicted by the U.S. Census in 2008, household growth should average 1.18 million per year in 2010-2020.

The recession took a toll on household income but did little to lessen the **burden of housing costs**. Between 2007 and 2010 the number of households paying more than half of their income for housing rose by 2.3 million to 20.2 million. While renters accounted for the vast majority of the increase, the number of severely cost-burdened owners also rose more than 350,000 as many households took on expensive mortgages they were later unable to refinance. In addition, this recent increase is on top of an increase in cost burdened households of 4.1 million in 2001-2007.

These cost burdened families face a big challenge. Among families with children in the bottom expenditure quartile of income and with the most severe housing cost burden, only about three-fifths of the amount is spent on food, half as much on clothes, and two-fifth on healthcare as is spent by families living in affordable housing.

The Joint Center said there are **few prospects for a meaningful reduction in this cost burden**. Funding for the federal Housing Choice Voucher Program has increased only modestly since the recession and the only significant growth in subsidized rental housing is through the Low Income Housing Tax Credit which continues to add about 100,000 affordable units each year. If the current calls for reducing domestic spending are realized "the nation would move even further away from its longstanding goal of ensuring decent, affordable housing for all Americans."

On the road ahead, with moderate gains in multifamily and single family construction and improving sales of existing homes, **housing should be a stronger contributor to economic growth than it has been in years**. The rental market is back on track, but the owner occupied market still faces the same pressures it has for years; distressed properties which hold down prices and owners who are unable to sell because they are underwater.

Actions such as changes in the Home Affordable Modification Program, the servicing settlement, and more rapid disposition of properties where homeownership cannot be maintained are helping the market. However, the greatest potential for recovery of the for-sale market is its historic affordability. The dive in home prices and record low mortgages rates make homebuying more attractive than it has been in years but the limited availability of financing that meets the needs of many borrowers, strict underwriting guidelines, and rising fees are inhibiting sales. "With key mortgage lending regulations still undefined, it remains to be seen to what extent and under what terms lenders will make credit available to lower income and lower-wealth borrowers."

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