A Macro Perspective on Housing in the United States

Carol B. Meeks
Dean, College of Family and Consumer Sciences
Iowa State University

This paper presents an overview of the current status of housing in the United States. Housing is a key component in the quality of life of any country. According to The World Health Organization, housing is the single most important environmental factor associated with life expectancy (Brink, 1997). In all cultures, individuals expect their homes to be safe, secure, comfortable, and usable. The demographics of a country, along with its culture, in part dictate housing needs. In 1997 in the United States, there were about 90 million households. The population of 263 million is expected to grow slowly (Bureau of the Census, March 1997). The demographic structure plays a key role in determining housing demand. As one looks toward the future, the population of the United States is expected to grow in diversity and continue to age. The baby boom generation will add significant numbers to the aging population. Single person households will continue to account for a large percentage of the population based on the desire and ability to live alone .

The housing stock in the United States in the first quarter of 1998 was estimated to be 116,770,000 units (US Department of Housing and Urban Development, May 1998). Of these units, 103 million were occupied and 13.7 million were vacant. Of the occupied units, 65.9 % were owned and the remainder were rental units.

As is evident from this, home ownership dominates housing tenure choice in the United States. Home ownership rates are at an all time high. Several factors have contributed to this including: strong employment growth, low mortgage interest rates, and new more flexible financing options. Young adult households, minority and moderate income households have particularly benefited in this time period. Demographic trends alone will ensure further increases in the homeownership rate to 68% by 2010.

In 1997 sales of new homes were at a 19-year high and sales of existing homes set new records. Construction of new housing exceeded 1.0 million units for the sixth consecutive year. The value of all new private residential construction in 1997 was 265.6 billion dollars. Single-family units accounted for 164.4 billion dollars of this. Multifamily housing was at an eight-year peak at 340,000 units. Manufactured housing (mobile home) placements were also strong. There was some regional variation in construction and sales with the South and West stronger than the Northeast or Midwest.

Home equity is the primary source of wealth for the majority of households in the United States. Only 40% of households owned stock compared with 66% who owned homes. Further, the top 10% of stock holders owned three-fourths of all stock wealth, while the top 10% of homeowners held slightly less than half of all home equity.

Housing Demand

Household growth drives housing demand. Today the demand for housing is stimulated by a large baby boom generation as well as by high levels of immigration. The aging of the population will result in increased demand for an assortment of housing types. Universal design, while often discussed, is less often practiced. Most elderly prefer to age in place (American Association of Retired Persons, 1996). This will increase the need for delivery of home care services. Housing and health services are highly interconnected for elderly households.

Household composition and size play a role in the type of housing demanded. From 1970 to 1995, the number of married couples with children declined from 40% to 25%. Thus there was an increase in nonfamily households. Mean household size declined from 3.14 in 1970 to 2.65 in 1995. Although the number of white households increased by 30% between 1970 and 1995, African American households increased by 50% and Hispanic households by 150%. Thus, the population became more ethnically diverse. Immigration is expected to continue to account for a quarter of new households formed (State of a Nation's Housing, 1998). Thus, it will continue to add to the diversity of the population.

Another key component of housing demand is income. Income growth has stagnated. Median household income in 1993 was $33,941 while in 1995 it was $34,076 but by 1996 it was $35,492. At the same time, there was a significant increase in income inequality. There was a divergence of income between college-educated and high school-educated or less. The shift from married-couple to single-person households and the increase in single-parent households also added to the inequality. Of the 5.3 million households with worst case needs, about 2.8 million pay more than half of their income for rent or live in severely inadequate housing. The frequency of worst-case needs declines rapidly as income rises.

Housing Production

From 1970 to 1995, approximately 48 million housing units were produced. This is 40% of the United States housing inventory (Simmons, 1997). The data on both housing permits and housing starts indicate an increase in production. Housing completions are holding rather steady at a seasonally adjusted annual rate of 1,418,000 units. The aging of the housing stock and regional shifts in population will increase demand for new units. Manufactured housing is likely to increase its share of production. In part, population growth is highest in the South where manufactured housing is most popular.

Quality of housing has substantially improved with only two percent of units lacking complete plumbing and less than three percent being overcrowded.
The size of units has grown from a median of 1,375 square feet in 1971 to 1,920

square feet in 1995. More amenities were found in the units with 80% of new units having central air, 63% had fireplaces and 89% had two or more bathrooms in 1995. New housing units are also more likely to have patios, porches, or decks today than in earlier time periods. More than two-thirds of all new units have a two-car garage.

Households spent approximately $120 billion on improvements and repairs to their housing units in 1997 (Bureau of the Census, March 1998). This is almost as much as was spent on newly constructed single-family homes. About 65% of the $120 billion was for major improvements, which consist of additions and structural alterations, as well as roofs, siding, plumbing and electrical systems. Older homes typically need replacement of major systems. Between 1985 and 1995, the owned housing stock aged by five years, thus contributing to the need for more system upgrades.

Housing Prices and Affordability

New home prices always exceed prices on existing homes. The median price of a new home during the first quarter of 1998 was $152,200, up five percent from the previous year. The average price of a new home for the same time period was $180,600. The median price of an existing single-family home was $125,900, while the average price was $156,000 (US Department of Housing and Urban Development, May 1998). In contrast, manufactured homes had an average sales price of $41,100.

The Bureau of the Census also provides data on what is known as a constant-quality house. A fixed-weight Laspeyres price index is derived for the United States and each of the four census regions (Bureau of the Census, June 1997). The price model is designed to measure changes over time in the price of new single-family houses that are the same with respect to important physical and location characteristics. These characteristics account for 60 to 80 percent of the variation in the logarithm of the sale price. The base year of the price index is 1992. By 1996 the price index for the U.S. was 114.5. The sales price of the constant quality house was $174,400 in the first quarter of 1998. In contrast, the average price as indicated above was $180,600. The average price of homes sold from one period to the next may change not only because of price changes that are independent of quality but also because of shifts in quality. For example, the size of houses and the number of amenities have increased over time.

Housing affordability is measured in a variety of ways. In terms of home ownership, a common measure of affordability is the ratio of median family income to the income needed to purchase the median priced home based on current interest rates and underwriting standards, expressed as an index. The housing affordability index for the first quarter of 1998 was 134.5, meaning that households had 134.5% of the income needed to purchase the median-priced existing home. The affordability index has been at or near record high levels since 1993. In 1996, the first-time homebuyer index was at its third highest level since 1978.

Another measure of affordability is the amount of income spent per month on housing costs. If a household spends more than 30 percent of their income on housing, they are considered to have a housing expense burden. "In 1995, 5.3 million very-low-income renters without housing assistance paid over half their income for housing or lived in severely substandard housing." (U.S. Department of Housing and Urban Development, 1997, p. 1). Households with incomes below 50 percent of area median income are called "very-low-income" households. The persistence of a housing affordability problem for these renters has remained despite the robust economy. The fastest growth in worst case needs in the 1990s has been among working families. In 1995, there were 1.4 million such households with worst-case needs.

Of key interest to housing analysts are changes in prices and costs over time. The Consumer Price Index (CPI) is a measure of the average change in the prices paid by urban consumers for a fixed market basket of goods and services. The CPI provides a way to compare this month's cost of the market basket of goods and services with what the same market basket cost a month or a year ago. It is commonly used as a measure of inflation.

The base year for the CPI is set so that the average for the years 1982-1984 equals 100. By June of 1998 the index for all consumer items was 163 while the index for housing was 160.6 and for shelter it was 181.8, rent was 171.7, fuels and utilities was 131.2, and household furnishings and operations was 126.7 (Bureau of Labor Statistics, 1998).

Innovations in Mortgage Finance

Residential mortgage debt outstanding was $3.6 trillion dollars in 1995. This is 12 times the 1970 level. One to four family units accounted for 77% of all mortgage debt outstanding. The development of secondary mortgage markets linked housing finance to broader capital markets. Innovations in the mortgage market have contributed to the growth in housing sustainability. New underwriting procedures have allowed more borrowers to qualify for loans. There is a greater use of rent and utility payments to establish a credit record. In addition lenders have raised the maximum mortgage payment allowed for a given income level. Lower downpayments have meant that borrowers needed less cash to qualify for a loan.

Innovations in technology have allowed lenders to streamline their operations, reducing the cost and time required to process loans. Thus, borrowers can change mortgage instruments when market conditions change at a relatively low cost.

A variety of mortgage products are available to borrowers. In addition to the traditional fixed term, fixed rate mortgage, an array of adjustable mortgages exist. Some examples include: mortgages with rates that adjust annually, mortgages with a three-year fixed rate that adjusts either annually or every three years, as well as mortgages with a five-year fixed rate that then adjusts annually.

Secondary Mortgage Market

Since the 1930s a strong secondary mortgage market has developed through the growth of two government-sponsored enterprises (GSE): the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). In 1995, their portfolios contained $200 billion of mortgages on one-to four-unit housing. In addition, there was another $1.5 trillion in Mortgage Backed

Securities (MBS) which accounted for 42% of single-family debt outstanding.

A secondary mortgage market provides for the sales and purchases of mortgage loans as well as the development of packages of loans. The secondary market increases the amount of capital available for housing and the geographic mobility of that capital.

The GSE is a policy tool of the government. The government charters GSEs with special provisions that lower the costs of doing business. In this situation, the primary benefit of Fannie and Freddie is that the perception is that the government will not allow holders of their obligations or Mortgage Backed Securities to lose money if either GSE should fail. The Congressional Budget office has estimated that the activities of Fannie Mae and Freddie Mac reduce the interest rates that homebuyers pay by approximately 30 basis points (U.S. Department of Housing and Urban Development, 1996). The two GSEs are regulated in part through a largely independent Office of Federal Housing Enterprise Oversight within the Department of Housing and Urban Development (HUD) and in part directly by the Secretary of HUD.

The law also requires that both entities purchase mortgages of low-and moderate-income homeowners, multifamily mortgages, and mortgages in underserved geographic locations, such as central cities or rural areas. In addition, both entities have helped standardize mortgage instruments and increase innovation in the mortgage market. Both Fannie Mae and Freddie Mac are owned by investor-shareholders and are two of the world's largest financial institutions. Their combined assets and MBSs outstanding are move than $1 trillion.

A third entity in the secondary market is the Government National Mortgage Association (Ginnie Mae). This is a government corporation with HUD that supports mortgage market activities that could not be economically carried out by the private market. Ginnie Mae facilitates secondary market activities for federally insured or guaranteed mortgages.

Federal Housing Programs

Federal Tax Expenditures

The majority of Federal assistance for housing in the United States is through tax expenditures. This includes: deductions from payment of federal income taxes of mortgage interest and property taxes, the deferral of capital gains, the exclusion of capital gains on sales of the primary residence for those over age 55, the exclusion of interest on state and local government bonds for housing, as well as the tax credit for low-income housing. These tax expenditures total 97 billion dollars, with the largest expenditures for the mortgage interest deduction at 41.3 billion.

Federal Mortgage Programs

Homeownership has been supported through Federal housing programs since the 1930s. One of the longest lived and most successful housing programs in the United States is the Federal Housing Administration (FHA). FHA provides mortgage insurance for homebuyers who typically make small downpayments. The Federal government limits the value of housing that qualifies but there are no income requirements. Authorized in 1934, FHA created the standard mortgage with which most homebuyers in the US are familiar. The mortgage has a set term and is fully amortizing. Today the FHA focuses on assisting minority and first-time homebuyers.

The Veterans Administration (VA) operates a loan guaranty program, a direct loan program when mortgage credit is not otherwise available, as well as offers special housing grants to severely disabled veterans. An applicant for a VA mortgage must be certified as eligible and may not be required to make any downpayment.

The Farmers Home Administration (FmHA), which has been renamed the Rural Housing Service (RHS), operates rural nonfarm as well as farm lending programs. RHS housing assistance includes support for mortgage loans to low-and very-low-income borrowers with interest rates as low as one percent. Very-low-income homeowners can receive repair loans up to $15,000 and elderly homeowners can receive grants up to $5000 for repairs, improvement, or removal of health and safety hazards. The RHS is the lender of last resort that means that only borrowers who are unable to obtain financing from another source are eligible for RHS loans.

Federal Assistance

Housing policy is in a time of transition. The Federal government continues to be the primary source of assistance to low-income households. However, state and local governments and nonprofit associations are playing a larger role in the spending of federal funds. The cost of housing makes it impossible to provide even minimal assistance to all of those who need it most. Vouchers are increasingly being used so that households might locate housing closer to job opportunities. Cost-containment procedures are outweighing needs of households.

One of the Federal thrusts has been the development of a National Homeownership Strategy to support homeownership (U.S. Department of Housing and Urban Development, 1995). Homeownership is believed to provide personal financial security, strengthen families and communities, and promote economic growth. A goal of 67.5% homeownership rate by the year 2000 was established. This would add an additional 8 million homeowners. Several strategic themes were developed, including cutting the costs of homeownership, streamlining transaction costs, and opening and expanding opportunities in markets for homeownership. These goals are being worked on through groups of public and private partners. For example, prospective homebuyers receive counseling, and State and local governments have agreed on fast-track planning reviews. One hundred strategies have been developed. Welfare reform will shape the future of housing programs. "About 1.5 million very-low-income renters that receive housing assistance also receive income support. Of these households, about two-thirds are families with children getting Temporary Assistance to Need Families." (State of the Nation's Housing 1998). Welfare recipients that find full-time jobs are likely to earn more in wages than they lose in benefits. Often public housing or federally assisted housing is in low-income areas lacking job opportunities. Furthermore, lack of transportation and affordable childcare may also limit opportunities (U.S. Department of Housing and Urban Development, March 1998). Thus, households ma face the difficult choice of finding a job versus receiving housing assistance.

There is a large unmet demand for affordable housing for very-low-income households. The stock of rental housing that is affordable to the lowest income families continues to shrink. Deep subsidies are needed to produce housing at such low rents. Since 1995, Congress has refused to expand rental assistance (U.S. Department of Housing and Urban Development, April 1998). This mismatch between demand and supply is expected to worsen. A robus economy alone will not solve the housing problems of families with limited incomes. Even families who work full-time for minimum wage cannot afford decent quality housing in the private market.

Conclusion

As we look toward the future of housing in the United States, homeownership will continue to dominate household and family choice and be supported by strong national policy efforts. Growth in new housing will continue at a steady rate, assisted by innovative mortgage products and practices, mergers of builders, and technology, as well as demand. Diversity in the population will result in demand for a greater variety of housing types. Cultural differences create different needs and an aging population has a greater array of housing requirements. The demand for amenities in new housing will continue to increase.

The financial markets will continue to change as bank mergers continue. The secondary market GSEs and Ginnie Mae will continue to develop the mortgage market with new alternative products. The mortgage market will continue to become a national rather than local or regional market. Housing policy in the United States will continue its primary focus on home ownership through tax expenditures and mortgage market support. Other strategies will include more partnerships with industry and government to reduce barriers. Housing counseling, higher FHA loan limits, and the creation of new Homeownership Zones to revitalize inner city neighborhoods are additional homeownership programs.

In the short term particularly, low-income households will continue to have a difficult time finding housing they can afford at a location close to work. The U. S. , as a whole, is turning away from assisting those in need, whether it be housing need or income need. The philosophy of the government is aptly expressed by HUD Secretary Cuomo, "The most powerful engine of economic growth in our nation is American business, and the most effective social program is a job." (U.S. Department of Housing and Urban Development, February 1998). Only the future will tell us whether this approach will provide the households and families in the United States with the kind of housing and living environment that we are capable of furnishing.

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Biography

With over 25 years experience in housing issues, Dr. Carol B. Meeks is viewed as an expert on housing policy issues, particularly those related to rural areas. She has had national leadership roles related to manufactured housing both within the Federal government and with industry. She has conducted research related to regulatory issues and advised the National Association of Home Builders and the U. S. Department of Housing and Urban Development on this topic. Home buying and housing finance are two additional areas in which she has written.

Dr. Meeks currently serves as Dean and Professor of Human Development and Family Studies at Iowa State University, College of Family and Consumer Sciences. Her previous position was Department Head, Housing and Consumer Economics at the University of Georgia, College of Family and Consumer Sciences. She has also served as Supervisory Economist and Housing Section Head for the U.S. Department of Agriculture, Economic Research Service, Economic Development Division, as well as, a LEGIS Fellow on the Senate Committee on Banking, Housing and Urban Affairs.

Dr. Meeks is the author of the textbook, Housing, published by Prentice Hall, Inc. and of many journal articles and reports concerning issues surrounding housing. She is a prolific author and has been published in numerous scholarly journals. She is past president of the American Association of Housing Educators.