Housing Needs for the Next Decade

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For local policy makers anticipating the economic landscape in the post-recession and post-foreclosure period – roughly predicted to be the end of 2011 through until 2015 – there are three factors that will influence decisions about new housing development. These factors are an increase in the number of homeless families; the slowdown in household formation by young adults in the "echo boom" generation; and the severe cost burden that so many face for housing. The combination of these factors, added to the recession and the millions of mortgage foreclosures, means that there will be a much greater need for rental housing than for ownership opportunities in the early and middle years of the next decade.

More Homeless Families

According to data released by the Department of Housing and Urban Development (HUD)[1], the number of homeless families increased from 2007 to 2008 and then again from 2008 to 2009. In percentage terms, family homelessness increased 7 percent between 2008 and 2009 and 30 percent from 2007 to 2009. In terms of people's lives, these percentages represent 171,000 families in 2009 – fully 535,000 individuals who make up these family units. Families constitute 34 percent of the 1.56 million homeless counted in 2009.

To exacerbate the situation, those families seeking emergency shelter are making use of that shelter for longer periods of time before exiting to alternative housing. The median duration for homeless families in emergency shelter increased from 30 nights in 2008 to 36 nights in 2009.

Job loss and the related circumstance of mortgage foreclosures have contributed to the rise in homeless families. States hard hit by unemployment and/or mortgage foreclosures – Nevada, Ohio and Michigan – have some of the highest number of homeless in all categories. States with generally high housing costs, such as New York, also have high populations of homeless. California and Florida have high overall housing costs, high rates of foreclosure and high rates of homelessness.

[1] HUD Annual Homeless Assessment Report for 2009, released June 2010

Unfortunately the HUD homeless survey does not capture the number of families that double or triple up with relatives or friends. However, the data do show that on the night before becoming homeless, 20 percent of families were in their own residence and another 33 percent were in the home of relatives or friends.

Household Formation

Data from the Census Bureau show that the prolonged recession has taken its toll on the number of people starting a household – especially those "echo-boomers" in their 20's and 30's. The 10-year average of new households being formed has been 1.3 million per year. From a decade-high level of 3.5 million in 2001, this number has declined significantly to 772,000 in 2008 and to only 398,000 in 2009. This decline in new households impacts the rates of rental vacancies and new housing starts, as young singles and couples wait out the worst of the recession in shared living arrangements.

It is possible that young people with jobs may be able to take advantage of historically low mortgage interest rates and decreased home purchase prices to buy a first home. However, that bright prospect dims dramatically when confronting the realities of tighter rules for mortgage finance. A prime rate FHA-guaranteed mortgage will require a higher credit score, a significant down payment, perhaps 10 percent on average, and a low debt-to-income ratio. Recent college graduates with student loans, young people with no savings and people with credit scores under 700 need not apply. Thus, the immediate need for many young singles and couples is an affordable rental in good condition that is not too far from jobs and offers some measure of access to entertainment, culture, recreation.

Affordability Concerns

The share of U.S. households that are severely burdened with housing costs (spending more than half of their income) increased to 16 percent in 2008 rising from a steady 12 percent in both 1980 and 2000[2]. Figures drawn from the American Community Surveys from the Census Bureau show that a record 18.6 million households faced high housing cost burdens in 2008, the last year for which data is available. Living within these households were 44.2 million Americans including 13.7 million children.

The erosion of affordability over the last 50 years is striking. In 1960, only 12 percent of renter households spent half or more of their incomes on housing. By 2008, that share had doubled; that is one out of every four renter households. One in eight owner-occupants faced a severe cost burden in 2008 as well.

[2] Joint Center for Housing Studies, The State of the Nation's Housing 2010

Single parent families and those at the bottom of the wage scale (federal minimum wage) face the worst affordability challenges. Half of low-income single-parent households spent 63 percent or more of their incomes on housing in 2008.

These severe cost burdens for housing exist side-by side with a national vacancy rate for both owned and rental housing units that stand at a record of 14.5 percent in 2009. Even adjusting the numbers to remove “seasonal” vacancies (such as vacation properties lacking utilities to be used year round) there were still over 14 million (11 percent) vacant housing units in the U.S. last year. In this instance, an excess of supply is not having a significant impact on lowering prices for housing except in the cases of buildings with 10 or more units or with expensive rentals – those units being offered for $1,500 or more per month.

A Policy Focus for the Future

The catastrophe in mortgage foreclosures, the rising tide of homeless families, the cost of housing for so many and the anticipated demand for rental housing by both the aging baby boomers and the echo boom generation has changed the fundamentals about the kinds of housing most needed in communities. The implications of these data point to a need for construction of more multi-family rental housing units.

Housing construction has slowed to a crawl with fewer homes (both single- and multi-family) started in 2009 than in any year since World War II. It is in this context that local government policy leaders must step into the breach. Their role is to ensure that there are a myriad of housing choices to serve the diverse mix of individuals and families in each locale. Now is the time to set policy priorities that do not simply default into the habitual mode of giving preference and advantage to construction of single-family detached homes on large lots. The complexity of the new housing market requires different and more imaginative choices. If done well, decisions made now will be transformative, and will shape the future of neighborhoods for the next decade.

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