Please don't shoot the messenger!

A new study called *The State of the Nation's Housing Report* released the week of June 10 by the Joint Center for Housing Studies of Harvard University, shows the U.S. housing market has a very bumpy road to travel until it recovers. With millions of owners stuck in homes worth less than they owe on their mortgages, existing home sales remain depressed while new home sales continue near record lows.

In addition, elevated vacancies and foreclosures continue to place downward pressure on prices. In places where foreclosures are concentrated, property markets are in turmoil. Just 10% of neighborhoods across the U.S. account for nearly half of all foreclosures in 2010 – luckily for us, those markets are in Arizona, California, Florida and Nevada, with Boise, Idaho coming in last on the top foreclosure list.

After three consecutive years of record-low construction levels, the vigor of the recovery in housing now hinges on a return of demand. The lingering consequences of the recession and financial crisis, however, are thwarting a broader recovery. While the sharp declines in both home prices and interest rates have left homes in many places more affordable than they have been in decades, stubbornly high unemployment and tightened lending standards have limited the ability of many first-time buyers to capitalize on the situation.

Total housing construction over the previous decade now barely exceeds the lowest level of any ten-year period in records dating back to 1974, but vacancies remain elevated because the recession has driven demand down so sharply.

Although the housing industry continues to face significant challenges, one bright sign beginning to appear is in the rental market. Rental housing markets are tightening and may begin to lead a modest recovery in housing construction this year. After three consecutive months of employment growth over 200,000, there is new hope that a lasting recovery in the economy will materialize and spur an increase in housing demand and home sales.

While there are still no convincing signs of a broad turnaround in housing, the report shows that the market could turn quickly as evidenced by the healthy boost in both home sales and prices brought about by the 2010 homebuyer tax credit. The report highlights how growth in both younger and older households over the coming decade should continue to lift the demand for rental housing as well as for smaller homes. The baby boom generation will push up the number of households over age 65 by some 8.7 million over 2010-2020. Current mobility rates suggest 3.8 million could downsize over the coming decade, adding further to demand for smaller homes.

The report also calls attention to the continuing housing affordability challenges facing the nation. Tightening rental markets will exacerbate housing affordability problems for renters, especially those with low incomes. The past decade saw a surge in burdens among both renters and owners that left a record high 19 million American households paying more than half of their income for housing as of the latest available data in 2009. Overall, these cost burdens are climbing the income ladder to affect more moderate- and middle-income households. In fact, rates of severe-cost burden among households making between $45,000 and $60,000 per year (roughly 3-4 times the minimum wage) nearly doubled from 2001 to 2009.

Key Harvard Report Findings Include:

HOUSING CONSTRUCTION AND NEW HOME SALES REMAIN MIRED

- Total housing construction starts were well below 1 million for the third consecutive year in 2010, while completions of single- and multifamily homes were down 18 percent to 652,000 units.

- Multifamily rental starts picked up slightly from 92,000 units in 2009 to 101,000 units in 2010. While a promising upturn, last year's starts were less than half the 232,000 units averaged each year in 2000-8.

- The post-2006 cutback in housing production has been so severe that completions and placements in the past 10 years--a period that includes one of the largest housing bubbles in the nation's history-- barely exceeded the lowest level of any 10-year period on record dating back to 1974.

- New home sales dropped another 14 percent in 2010 to a low of 323,000, marking the fifth consecutive year of double-digit declines.

- The inventory of new single-family homes for sale fell to 183,000 in March, its lowest level since the 1960s, when the number of US households was half of what it is today.

- Real homeowner improvement spending was up just 0.9% in 2010; still down 26.7 percent from its peak.

- Rather than leading the recovery as in past cycles, residential construction was a damper on GDP growth in 2010, especially in the third quarter, where the 0.75 percentage point negative contribution was the biggest drag on GDP since the height of the downturn in Q1 of 2009.

- Residential fixed investment was just 2.3 percent of GDP in 2010- its smallest share since 1945. It had averaged 4.2 percent of GDP through the 1980s and 1990s, and hit a high of 6.1 percent of GDP in 2005.

HOUSING RECOVERY WILL REQUIRE RENEWED HOUSEHOLD GROWTH

- The 2010 Decennial Census reveals that household growth averaged only 1.12 million per year during the 2000s.

- Annual household growth over 2005-2010 was more than 400,000 lower than the rate in the first half of the decade according to the Current Population Survey. This slowdown meant that 2 million fewer households formed in the last five years than if the pace in the first half of the 2000s had continued.

- Immigration has made important contributions to household growth in recent decades. But the recession has produced a decline in non-citizen households, slowing annual growth in foreign-born households overall to virtually zero from 2007-10.

- Since 2007, the share of adults aged 20-24 heading independent households dropped by 2.6 percentage points, while that of adults aged 25-29 fell by 2.8 percentage points, according to the Current Population Survey.

- Much of this increase is due to more young adults living with their parents. The increase in these shares over 2005-10 amounts to an additional 1.6 million young adults living at home.

- The 2010 decennial census reveals that US population continues to shift to the South and West. Nevada, Arizona, Utah, Idaho, and Texas each registered population gains of more than 20 percent in 2000-10.

- Suburbs continue to attract growing numbers of residents, indeed, growth rates in high-density metropolitan area counties were less than a third of those in medium- and low-density counties.