Maryland's housing market challenges

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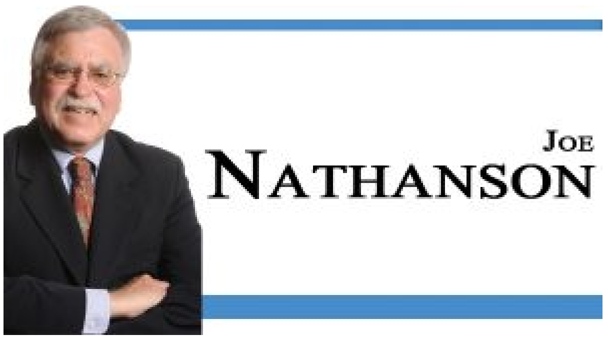

It's now just about a decade since the onset of the Great Recession and the ensuing collapse of the nation's housing market. We are just now beginning to approach the level of housing prices that were in effect a decade earlier. Housing markets in most parts of the nation have recovered, but the picture is uneven. And renters tend to fare less well than home owners.

Those are some of the findings that can be gleaned from the just released State of the Nation's Housing, 2017, issued by Harvard University's Joint Center for Housing Studies.

As part of the launch of this latest report in mid-June, the Center held a live webinar at the offices of the National League of Cities in Washington. Included on a panel to discuss the findings of the report was our own Baltimore Mayor Catherine E. Pugh. The mayor noted that, even in the context of some challenging times, Baltimore is high on the list of cities (6th, by her account) that millennials are now gravitating toward.

In fact, that is part of the larger picture painted by the Harvard report. The report notes that as the millennial cohort moves into its late 20s and early 30s it will cause the demand for both rental housing and first home ownership to soar. The press release accompanying the report refers to this group as "the most racially and ethnically diverse generation in the nation's history" and notes, "these young households will propel demand for a broad range of housing in cities, suburbs, and beyond."

The baby-boomer generation, now ranging from the mid-50s to edging past 70, will still be making its mark on housing markets across the nation, as boomers continue to invest in existing homes or modify their residential choices to adapt to changing needs as they age. "Meeting this growing and diverse demand will require concerted efforts by the public, private and nonprofit sectors to expand the range of housing options available," says Daniel McCue, a senior research associate at the Joint Center.

Meaningful trends

Affecting all groups in the housing market are the following trends:

- New housing unit construction is still lagging compared to pre-recession levels. While 1.17 million units were added to the nation’s housing stock in 2016, this is still well below the production levels of 1.4- to 1.5-million units experienced in the 1980s and 1990s.
- The reduced level of inventory for sale is found in both the new and existing home components of the market. Conditions are notably tight in the lower-price segment of the market, reflecting both slower price recovery in the lower cost segment and the reduced level of production of entry-level homes. For example, the production of smaller homes (those under 1,800 square feet), fell from nearly 500,000 to just 136,000 between 2004 and 2015.
- The rental markets are extremely tight, even with the strong growth in construction of multi-family units. The rental vacancy rate fell for the seventh straight year in 2016.The national vacancy rate of 6.9 percent was the lowest level in three decades. The low vacancy rates in many markets combined with strong demand, puts upward pressure on rents.
- Affordability pressures are widespread across many markets.Using the standard of 30-percent-of-income to measure housing affordability, just under 39 million U.S. households were cost burdened in 2015. Households are considered severely burdened when their housing costs exceed 50 percent of their income. Just under 19 million households were severely cost burdened in 2015. Homeowners represented about 40 percent of those severely burdened; renters were about 60 percent of the total.
- Among renters, the share of those severely burdened varies widely across the nation’s 100 largest metro areas. They range from a high of 35.4 in Miami to El Paso, which registers at the low end at 18.8 percent. The Baltimore (officially, Baltimore-Columbia-Towson) metro area lies in the middle with 25.4 percent severely burdened, representing 91,100 area renter households.

While the country’s housing markets have generally improved and stabilized, relative to the depths of the housing bust, the issue of affordability remains a major challenge both nationally and locally.

The Joint Center report notes, “Given the pivotal role of housing in determining the well-being and financial security of every individual and family, attending to the nation’s critical housing challenges should have primacy in the debates over public spending, tax policy, and regulatory regimes.”

This brings to mind that tax reform/ overhaul may soon occupy discussions by our leaders in Congress. Will the Low Income Housing Tax Credit program, one of the very few tools to advance housing affordability today, become a casualty of that process? Stay tuned.

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