By Michael Chamernik, Associate Editor

HOUSING MARKET

UNEVEN RECOVERY

As a whole, the housing market has recovered since the Great Recession, but conditions are somewhat uneven, according to the Joint Center for Housing Studies of Harvard University's recently released 2017 State of the Nation's Housing report. Home prices rose 5.6 percent in 2016, reaching a high set nearly 10 years earlier and dropping the number of homeowners underwater on their mortgages to 3.2 million, roughly a quarter of the 2011 peak.

But the recovery is inconsistent, with some parts of the country faring much better than others. While home values increased in 97 of the nation's 100 largest metro areas, 32 of them are still more than 15 percent away from their pre-recession peak prices. These cities include Chicago, Las Vegas, and Tampa, Fla.

Since 2000, home prices have surged by more than 40 percent in dozens of Western counties, particularly the ones that include Seattle, San Francisco, and Los Angeles. Meanwhile, prices have declined in scores of Midwestern and Southeastern counties, including homes in Detroit, Louisville, and Memphis, during the same time frame.

The price gains are being driven by high demand and tight inventory. While the construction of single-family homes rose 9.4 percent last year to 781,600, according to the report, the U.S. has added less new housing over the last 10 years than during any other 10-year period since the 1970s.

"Any excess housing that may have been built during the boom years has been absorbed, and a stronger supply response is going to be needed to keep pace with demand—particularly for moderately priced homes," said Chris Herbert, the Joint Center's managing director, in a statement.

The nation's homeownership rate is still hovering near a 50-year low at 63.6 percent, as of Q1 2017. The rate isn't expected to dip any lower, though, as homeownership is picking up. Owner households increased by 280,000 in 2016, the largest increase since 2006.

But housing affordability remains a chief concern. Per the report, just 45 percent of renters in the nation's largest metro areas can afford monthly payments on a median-price home in their area. That share drops to 25 percent in some of the pricier markets in the West, Northeast, and Florida.

Renters are having problems saving for a home because they are spending big bucks on rent. More than 11 million renter households spend over half of their incomes on rent, and the number of cost-burdened (paying 30 percent of their income toward housing) renter households is higher than the number of cost-burdened owner households—21 million to 18 million—even though more people are owners.

Despite the concerns about affordability, Millennials are expected to drive demand for both rental and owner-occupied housing, particularly in major cities. Most Baby Boomers, meanwhile, are expected to stay in their current homes and modify them to meet changing needs.

RENTAL MARKET

RENTERS STILL CONFIDENT ABOUT AFFORDABILITY

Even with rising rents, especially in popular urban areas, the majority of renters aren't too concerned about being priced out, according to the most recent Zillow Housing Aspirations Report, which found that 83 percent of renters are either "very confident" or "somewhat confident" that they can stay in their homes as long as they want. Just 13 percent said they are "not very confident," and 4 percent said that they are "not at all confident."

Even low-income renters believe that they can stay put. A combined 80 percent of low-income respondents said that they feel very or somewhat confident that they can continue living where they are, compared with 82 percent of median-income renters and 88 percent of high-income renters.

The survey received responses from renters across 20 major markets. In six markets, more than a quarter of low-income renters said they are not confident that they will be able to keep their homes: Los Angeles (37 percent), San Jose, Calif. (31), Dallas (28), San Diego (27), San Francisco (27), and New York City (25). With the exception of Dallas, at $1,750, the median rent for a two-bedroom apartment in each of these cities was more than $2,000, per May data from Apartment List, a website that aggregates apartment listings. Median rent for two-bedroom units in San Francisco and New York is more than $4,000, and median rent for one-bedroom units is more than $3,000.

As for median-income renters, 40 percent of respondents from San Jose say they aren't confident that they will be able to live in their current homes in perpetuity—the highest rate in the surveyed group. Sizable shares of median-income renters in San Francisco (25 percent), Seattle (24), Los Angeles (23), and Denver (21) also say they aren't confident about staying.

Of the major metros, high-income renters in Chicago, Denver, and San Jose (20 percent each) are the least confident that they will be able to stay in their homes.

Counting all income groups, Atlanta (9 percent), Boston (9), Detroit (11), Philadelphia (12), Phoenix (13), and Las Vegas (13) had the lowest shares of respondents who say they are not confident that they can stay. With the exception of Boston, at $3,400, rents in these markets are fairly affordable, at $1,760 or less for a typical two-bedroom apartment. Detroit ($680), Phoenix ($1,040), and Las Vegas ($1,050) had reasonable prices for two-bedroom units, per data from Apartment List.

HOMEOWNERSHIP

DOWN PAYMENT MAIN OBSTACLE FOR MILLENNIALS

When it comes to making the move and actually buying a home, many of today's young adults are still a long way off. A recent survey indicates that, of potential homebuyers, 68 percent of Millennials have less than $1,000 saved toward a down payment, with 44 percent saying that they haven't saved at all.

Real estate website Apartment List conducted a nationwide survey of about 24,000 renters and focused on the responses of Millennials, 80 percent of whom said that they want to purchase a house or condo. Millennials are defined as people born between 1982 and 2004.

In the same vein as savings, 53 percent of Millennial respondents to the survey said that the down payment is an obstacle for affording a home, while 36 percent cited monthly payments and 29 percent said that a low credit score are hurdles.

But down-payment difficulties may be even greater than Millennials anticipate. According to the survey, Millennial respondents underestimate how much a 20 percent down payment would cost to buy a median-price condo in all but one of 31 major markets. For example, the median condo in Los Angeles costs $420,400, meaning a 20 percent down payment would be $84,080. Respondents expected a $36,340 down payment, which is only 43 percent of the actual down-payment cost. In comparing expected down payments and actual down-payment costs, respondents' estimations were two-thirds or less in 22 markets. Only in Las Vegas did respondents overestimate the price ($26,790 expected to $23,300 actual).

Young adults who want to buy a home in some of the nation's most expensive markets will need to be patient. Based on wage increases and current and future down-payment savings, it will take Millennials more than 20 years to save for a 20 percent down payment in San Jose, Calif., Austin, Texas, and Los Angeles. It will take more than a decade to save for a down payment in 13 additional cities, including Chicago, Denver, Houston, and Nashville, Tenn. Kansas City, Kan., is the easiest place to save, where it will take just 5.5 years.

Even with these potential roadblocks, Millennials still feel strongly about homeownership. The share of respondents who said they plan to eventually buy a home increased from 74 percent to 80 percent from 2014 to 2016. But more people are delaying their dreams, as 36 percent of respondents said they plan to buy a home five or more years from now, up from 23 percent in 2014.

When asked what's preventing them from buying, 72 percent of Millennial respondents said that they can't afford it, and 45 percent said that they want to settle down before making such an important life choice. A little more than one-third said they were waiting for marriage. **PB**