affordable to incomes below 30 percent of median income. Reacting to high vacancy rates in market-rate housing, multifamily starts have been low in the last few years, though starts have picked up in 1994. Although volatile interest rates strongly influence both starts and mortgage market activity, rates that are relatively low by historical standards have improved affordability for first-time buyers.

a. Underlying Demographic Conditions

(1) *Household Formations.* The demand for housing and mortgages depends heavily on household formations. During the 1970s, as the leading edge of the baby boom generation (born between 1946 and 1964) entered adulthood, household formation surged to an annual average of 1.7 million. Aided by rising incomes and low real interest rates, household heads aged 25–34 purchased homes in record numbers. During the 1980s, annual household growth fell slightly to an average of 1.5 million. Many in the ''housing upgrade'' group (aged 35–44) had benefitted from substantial increases in the prices of their first homes, and were able to afford bigger and higher quality homes during the 1980s. Household formation is expected to drop sharply during the 1990s. The Census Bureau projects that the older baby boomers (aged 45 to 54) will be the fastest growing population group during this decade.

The effects of these demographic trends on housing demand have been debated in the economics literature for several years. In 1989, Gregory Mankiw and David Weil predicted that the aging of the baby boomers and the small size of the following ''baby bust'' generation would substantially reduce housing demand and cause housing prices to collapse during the 1990s.[21] Other researchers disagree. Reductions in housing demand due to aging of the baby boom generation could be offset by many factors, including rising incomes, pent-up demand for homeownership by those priced out of the housing market during the 1980s, and high levels of immigration.[22]

(2) *Immigration.* The continued increase in immigration during the 1990s will help offset declines in the demand for housing caused by the aging of the baby boom generation. During the 1980s, there were 6 million legal immigrants into the United States, up from 4.2 million during the 1970s and 3.2 million during the 1960s. The Hispanic population residing in the U.S. increased by 50 percent during the 1980s, while the Asian population doubled. About one-quarter of the Hispanics living in the U.S. in 1990 had immigrated during the 1980s. Immigration is projected to add even more new Americans in the 1990s than it did during the 1980s. Asians and Pacific Islanders are expected to be the fastest growing group, with annual growth rates that may exceed 4 percent in the 1990s. Total population is now projected to rise by 25 million in each of the decades from 1991 to 2020. The tendency of immigrants, particularly Hispanics, to locate in certain ''gateway'' cities (e.g., Los Angeles and Miami) will placed increased demands on the housing stock in some major urban areas.

(3) *Non-traditional Households.* While overall growth in new households has slowed, non-traditional households have become more important. With later marriages, divorce, and other non-traditional living arrangements, household growth has been fastest among single-parent and single-person households. The number of single parents with one or more children under 18 was 10.5 million in 1992; the vast majority of those single parents were women.[23] About 62 percent of Black families with children were single-parent families in 1992, compared with 34 percent for Hispanics and 24 percent for Whites. Since only 35 percent of single-parent households are homeowners compared to 74 percent of married couples, their increase should spur demand for rental housing and for affordable ownership opportunities. In addition, HUD's analysis of the nation's worst case housing needs shows that female-headed households suffer some of the most severe housing problems.

(4) *Single Person Households* are playing an increasingly important role in the housing market. Singles accounted for one-fourth of all households in 1990. While one-half owned their own home, most of these were elderly people with little or no mortgage debt and probably no intention of entering the housing market. Never-married singles, on the other hand, have been a significant factor in the homebuying market in large urban areas, according to the annual Home Buyers Survey of the Chicago Title and Trust Company. They accounted for a third of first-time homebuyers in 1992 and 1993, up from slightly over one-quarter of first-time buyers in 1990 and 1991, and as discussed above, ownership rates among non-elderly single individuals rose steadily during the 1980s.[24] Low interest rates during the past two years apparently enticed even more single renters to become homeowners.

b. Economic Conditions

(1) *Income Inequality.* Growing inequality in the distribution of income makes it more difficult for those at the bottom of the income distribution to purchase adequate shelter. The share of the nation's income received by the richest 5 percent of American families rose from 18.6 percent in 1977 to 24.5 percent in 1990, while the share received by the poorest 20 percent fell from 5.7 percent to 4.3 percent. This widening income inequality was due mainly to wage rates becoming more unequal—as the economy moved away from manufacturing to more advanced computer and knowledge-intensive industries, the wages of unskilled, entry-level, and blue collar workers have fallen relative to the wages of professional and technical workers. The result has been an increase in the working poor and a squeezing of the middle class.

(2) *Interest Rates.* Volatile interest rates continue to be a major determinant of housing and mortgage market activity. As the 1980s began, mortgage interest rates were above 12 percent and rose quickly to over 15 percent. After 1982, they drifted slowly downward to the 9 percent range in 1987 before rising to over 10 percent in the 1989–1990 period. Rates returned to 9.32 percent in 1991 and then fell further to averages of 8.24 percent in 1992 and 7.20 percent in 1993. The October 1993 rate of 6.80 percent was the lowest level in more than twenty years.[25]

During 1992 and 1993, homeowners responded to the record low rates by refinancing existing mortgages. While refinancing accounted for less than 25 percent of mortgage originations in 1989–90 when interest rates exceeded 10 percent, the sharp decline in interest rates led refinancings to account for over 50 percent of all mortgage originations in 1992 and 1993.[26] Because of the heavy refinancing activity, single-family mortgage originations surged from less than $500 billion in 1990 to record levels of $894 billion in 1992 and over $1 trillion in 1993.

Single-family housing starts have also responded to interest rates, with record low volumes in 1981 and 1982, peaks in 1986 and 1987, and less severe lows in 1990 and 1991. Low interest rates and economic recovery in 1992 and 1993 made homeownership more affordable and helped turned the housing market around. Single-family starts increased from less than 900,000 during the recessionary years of 1990 and 1991 to 1.030 million in 1992 and 1.126 million in 1993. Volume in 1993 was almost 35 percent higher than 1991's recessionary low of 840,000.

(3) *First-time Home Buyers.* First-time home buyers have been the driving force in the recovery of the nation's housing market in the past two years. First-time homebuyers are typically people in the 25–34 year-old age group that purchase modestly priced houses. As the post-World War II baby boom generation ages, the percentage of Americans in this age group has shrunk, from 28.3 percent of those over age 25 in 1980 to 25.4 percent in 1992.[27] Nonetheless, as reported in a series of annual Home Buyers Surveys conducted by the Chicago Title and Trust Company, first-time homebuyers have bucked these demographic trends to increase their share of home sales. During the 1980s, first-time buyers accounted for about 40 percent of home sales; this figure rose to 45 percent in 1991, 48 percent in 1992, and 46

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[21] W. Gregory Mankiw and David N. Weil, ''The Baby Boom, the Baby Bust, and the Housing Market,'' *Regional Science and Urban Economics,* May 1989.

[22] See, for example, Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 1994,* 1994.

[23] U.S. Department of Commerce, Bureau of the Census, *How We're Changing: Demographic State of the Nation: 1993.* Special Studies Series, P–23, No. 184, February 1993.

[24] Chicago Title and Trust Family of Insurers, *Who's Buying Homes in America,* January 1992 and January 1993.

[25] Council of Economic Advisers, *Economic Indicators,* September 1994 and *Economic Report of the President,* February 1994.

[26] Monthly average refinancing data obtained from Freddie Mac's *Primary Mortgage Market Survey.*

[27] U.S. Department of Commerce, Bureau of the Census, *Money Income of Households, Families, and Persons in the United States: 1992,* Special Studies Series P–60, No. 184, Table B–25, October 1993.