

percent in 1993.<sup>28</sup> The 1992 figure was the highest percentage for first-time buyers since the annual Home Buyers Survey was initiated in 1976.

Among the active first-time buyers was a record contingent of single-individual households. As noted above, the 1992 and 1993 Home Buyers Surveys found that approximately 30 percent of first-time buyers in these years were single, compared to 21 percent in 1991. The more affluent, move-up home buyers, on the other hand, have recently played a smaller role. A sluggish economy, uncertain outlooks for many white-collar jobs, and slow house price appreciation apparently have kept many trade-up buyers out of the housing market.

Reflecting these trends, the average income for recent home buyers has fallen. In 1991, one of every three buyers had a family income of \$50,000 or less; in 1993, those earning less than \$50,000 accounted for 44 percent of all home buyers. Apparently, two years of low interest rates induced many renters who had previously been priced out of the market to try homeownership. A strong pent-up demand to own a home should not be surprising given the large reductions in homeownership rates experienced by several groups during the 1980s (see Section C.1.d above). A recent survey of renters by the National Association of Realtors (NAR) indicated that only one-third prefer to remain renters for the foreseeable future.<sup>29</sup> Thus there are many potential home buyers among the 34 million households that are currently renting.

#### c. Housing Conditions

##### (1) *Affordability of Home Purchase.*

Potential home buyers in 1992 and 1993 enjoyed the most affordable market in almost twenty years. The National Association of Realtors (NAR) tracks housing affordability by measuring the degree to which an average family can afford monthly mortgage payments on a typical house, assuming that the family has enough cash for a 20 percent down payment. Specifically, NAR's composite affordability index measures the ratio of median family income to the income required to qualify for a conventional loan on a median-priced house. After averaging slightly over 110 between 1986 and 1991, the index jumped to 125 in 1992 and 137 in 1993.<sup>30</sup> The 1993 figure indicates that the U.S. median family income was 37 percent more than was needed to qualify for a mortgage on the nation's median priced house. The South and North Central census regions were the most affordable for homebuyers, with affordability indexes of 141 and 176, respectively, in 1993. Affordability remained much more of a problem in the Northeast and West, where NAR's indexes were around 110 to 117.

In addition to its overall affordability index, NAR also estimates the ability of first-

time home buyers to purchase a modestly-priced home. When this index equals 100, the typical first-time buyer can afford the typical starter home under existing financial conditions with a 10 percent down payment. NAR's first-time home buyer index increased from 75 to 89 between 1991 and 1993. The fact that this index remained below 100 indicates that the monthly mortgage payment continued to place a significant burden on first-time home buyers even during a period of record low interest rates. The recent jump in interest rates reduced housing affordability slightly. According to Freddie Mac' primary market survey, interest rates for conventional, 30-year, fixed rate mortgages increased from a 25 year low of 7.05 percent in the fourth quarter of 1993 to 8.46 percent in the third quarter of 1994.<sup>31</sup> This increase can be expected to make it more difficult for potential first-time home buyers to qualify for conventional mortgages, as reflected in the third dip in NAR's composite affordability index from 142 in the fourth quarter of 1993 to 128 in the third quarter of 1994. The first-time home buyer's index dropped from 92.3 to 83.0 during this period. Both indexes would have fallen further if incomes had not risen to partially offset the effects of increased interest rates. However, interest rates continue to remain lower and housing more affordable than was true for any previous extended period since 1977. Moreover, as the economic recovery continues, rising incomes should continue to offset the effects of higher interest rates.

(2) *Declines in the Number of Low Rent Units in the Housing Stock.* The rental housing stock considered affordable to poor families (the number of units with rents less than \$300 per month, in constant 1989 dollars) fell from 9.9 million units in 1974 to 9.5 million units in 1985, and to 9.2 million units in 1991.<sup>32</sup> Such declines in the number of low-rent units, combined with sharp increases in the number of poor families, underlie Congressional concerns about the need to expand the supply of affordable rental housing.<sup>33</sup>

Such shortages of rental units relative to renters occur mainly among units affordable to renters with incomes below 30 percent of area median. Analysis of Census data shows that nationally there were only four units for every five renters with incomes below 30 percent of area median in 1990, while for renters with incomes below 50 percent of median nationally there was a *surplus*—1.24 units for every renter.<sup>34</sup> Similarly, at the state level, 30 states had shortages of units affordable below 30 percent of median, while

only 3 had shortages of units affordable below 50 percent of median.<sup>35</sup> Such shortages were strongly correlated with the incidence of worst case needs by state. The combined effects of a declining low-rent housing stock and the demand for rental units by young families that are locked out of the homeownership market have kept rents high for poor renter families.

(3) *Multifamily Production and Finance.* This section discusses three important trends in the multifamily industry, including recent shifts in construction levels, projections for the mortgage market, and shifts in financing trends. Peaks and troughs have characterized multifamily construction since 1959. The most recent peak year was 1985, in which 576,000 multifamily units were started.<sup>36</sup> The downturn from this peak was particularly severe, and resulted from lower net household growth and the loss of favorable tax treatment due to the Tax Reform Act of 1986. For the last 3 years, multifamily housing production has been at the lowest levels recorded since the Government began collecting these data 35 years ago. In 1993 only 131,200 multifamily units were started, far below the annual average of 435,000 units from 1964 through 1992.

While multifamily production will probably continue at below-average rates for the next few years, signs indicate that this sector of the housing industry has begun a modest recovery in 1994. Much of what is being produced now is because of Low-Income Housing Tax Credits—about 50,000 units in both 1992 and 1993. In addition, an increasing share is being produced by non-traditional developers, particularly community-based, nonprofit developers. Although current production levels do not meet the demand for low-cost rental housing, housing affordable to moderate income families is capturing a large share of the multifamily units that are being produced.

Multifamily mortgage originations have paralleled the patterns of multifamily construction starts. Conventional mortgage originations peaked at \$41 billion in 1986 (a year after the peak in construction starts), and then declined every year to a trough of about \$25 billion in 1991 and 1992, while the 1993 level rose to almost \$29 billion. The 1994 level is projected to be about \$33 billion, with an increase to the \$35–\$40 billion range for 1995 and 1996.

The decline in total multifamily lending in the late 1980s accompanied a change in the structure of the market.<sup>37</sup> In 1985, thrift institutions originated a peak of 42 percent of multifamily mortgages. However, their holdings have decreased by \$41 billion since 1988, due to defaults and write-offs, failure of institutions and refinancing of thrift-held

<sup>31</sup> The most recent surveys for the last weeks of November showed that interest rates had settled in the neighborhood of 9.25 percent.

<sup>32</sup> 1974 and 1985 figures from Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing*, 1992, p. 35. The 1991 figure is calculated from Exhibit 21 of the 1994 Joint Center report on *The State of the Nation's Housing*.

<sup>33</sup> U.S. Senate, 1992. Report accompanying S.3031, the *National Affordable Housing Act Amendments of 1992*. 102d Congress, 2d Session, Report 102-232, p. 8.

<sup>34</sup> Amy Bogdon et al., *National Analysis of Housing Affordability, Adequacy, and Availability*, HUD-1448-PDR, 1994, pp 52-53.

<sup>35</sup> U.S. Department of Housing and Urban Development, *Worst Case Needs for Housing Assistance in the United States in 1990 and 1991*, HUD-1481-PDR, 1994, Table 8.

<sup>36</sup> The record high was 906,200 multifamily units started in 1972.

<sup>37</sup> The following discussion is drawn from The Hamilton Securities Group Inc. The National Multi Housing Council, and The National Apartment Association, "A Report on the Multifamily Mortgage Industry," 1994.

<sup>28</sup> Chicago Title and Trust Family of Insurers, *Who's Buying Homes in America*, January 1992, January 1993, and January 1994.

<sup>29</sup> National Association of Realtors, *Survey of Homeowners and Renters*, 1991.

<sup>30</sup> See *News Release*, "Housing Affordability Sustained Despite Rise in Interest Rates", National Association of Realtors, August 9, 1994.