A Tale of 2000 Cities

How the sharp contrast between successful and struggling communities is reshaping America

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Demand Institute®

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It is all too easy when discussing the U.S. economic outlook to forget that it aggregates the economic prospects of thousands of different cities, towns, and villages across the nation. National statistics typically mask this local, and indeed more human, view of the country's many distinct communities.

While there are many metrics that help us assess community health and well-being, few are more telling than those that relate to the strength of the local housing market. The home is often a family's single most valuable and visible economic asset, and housing in a community is a reliable gauge of its prosperity. Drive through any American town and you can readily judge how well the community is faring by the types of property, their size, and condition.

The Demand Institute first began investigating developments in the U.S. housing market three years ago. The focus of our latest report, *A Tale of 2000 Cities*, looks specifically at how those developments are affecting American communities.

This report is the outcome of economic analysis of 2,200 cities, towns, and villages that are home to half the population of the U.S., coupled with in-depth interviews with the heads of 10,000 U.S. households. The findings are relevant for those interested in both the health of the U.S. housing market and the health of the country's communities, providing fresh insights that will help government and business leaders shape policies, strategies, and investment decisions.

In producing this report, The Demand Institute team has been privileged to work with many experts from government and private-sector organizations who helped us design the research and scrutinize its findings. Among them are professors, CEOs, chief economists, Wall Street analysts, strategists, and other research experts from their organizations.

The Demand Institute is a joint endeavor of The Conference Board and Nielsen, two organizations that have provided leaders with trusted, objective, and independent insights into consumer markets for almost a century.

This report continues in that tradition.

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Key Conclusions

HOUSING is often the single most valuable and visible asset for U.S. households — and provides an incredibly powerful and accurate lens through which to assess the state of American communities.

A LARGE PROPORTION OF HOUSING WEALTH is concentrated in a relatively small proportion of America's cities and towns. Of the 2,200 we analyzed, the top 10 percent ranked by the aggregate value of their owner-occupied homes held 52 percent ($4.4 trillion) of the total housing wealth. The bottom 40 percent held just 8 percent ($700 billion).

AMERICA IS DIVIDED INTO NINE DIFFERENT COMMUNITY TYPES, ranging from the successful — the "Affluent Metroburbs" — to the genuinely troubled — "Endangered Communities." Our analysis suggests that approximately 50% of the American communities we studied are struggling to find their way forward after the Great Recession.

DOUBLE-DIGIT INCREASES in U.S. home prices over the past two years are not indicative of future trends. They were largely driven by investors buying up swaths of distressed homes to meet growing rental demand

OVER THE NEXT FIVE YEARS, prices will grow at a much slower rate. We forecast existing single-family median home prices to grow at an average annual rate of 2.1 percent between 2015 and 2018 as supply and demand move into a sustained equilibrium.

THERE WILL BE SIGNIFICANT VARIATIONS among all 50 states and the largest 50 metropolitan areas in the next five years. Price rises will be more than three times greater in the strongest markets than in the weakest ones.

THERE ARE OPPORTUNITIES for government and business leaders to support and amplify success stories from the most vibrant communities, and to consider interventions to strengthen struggling communities.

Introduction

Housing is a major engine of the U.S. economy. It is often a family's single biggest asset and its single biggest expense. U.S. consumers spend approximately $2 trillion a year on housing, if one includes all the money allocated to buying, renting, renovating, and maintaining homes. In turn, this triggers hundreds of billions of dollars of additional spending in related industries such as construction, banking, automotive, retailing, and telecommunications.

But housing is much more than economics. Our homes—be they tiny apartments or sprawling estates—are where we eat, sleep, watch TV, surf the Internet, do homework, pursue hobbies, and of course share time and space with those who are closest to us. And they are part of the local communities in which we live. As such, they are an integral part of the fabric of our lives and can have a profound impact on the quality of our lives.

The Demand Institute's first report on U.S. housing, *The Shifting Nature of U.S. Housing Demand* (May 2012), accurately predicted a price recovery and a shift in demand toward rented accommodations. *TIME* magazine called the report "one of the most comprehensive and substantive arguments we've seen yet that the housing market is nearing the light at the end of the tunnel." Moreover, the report sparked interest among many private- and public-sector leaders for an even more detailed forecast of the housing market. This report is our response.

It describes the results of a comprehensive research program that examined how the housing market would develop over the next five years at the national and state levels, as well as within the largest 50 metropolitan areas. In addition, the research built detailed economic profiles of the 2,200 largest cities and towns in the United States by analyzing over 500 metrics. The intent was to understand not only home price movements, but a whole range of economic indicators such as labor market conditions, crime rates, education provision, and demographics, many of which are closely related to the health of local housing markets and, indeed, to the health of entire communities. These 2,200 communities are home to 50 percent of U.S. residents. Moreover, their size—none is smaller than 15,000 persons—means they influence many thousands of smaller, surrounding communities, thus painting a reliable picture of the health of the housing market and local communities across the United States.

But our research went further still. Central to The Demand Institute's mission is the integration of economic analysis with consumer research, two disciplines more often tackled by separate organizations.

We therefore sought a consumer view of housing in order to build a still-better understanding of the health of local housing markets and local communities. To that end, we interviewed the heads of 10,000 households in all types of housing, posing more than 150 questions about their housing, housing finances, and neighborhoods. The results offer, we believe, a uniquely detailed understanding of consumers' views about their homes.

The findings from this multidisciplinary research are presented in four parts. The first looks at future home price movements and forecasts a continued recovery in the U.S. housing market overall. By 2018, the median price of a single-family home in the United States, unadjusted for inflation, will be close to the peak reached in 2006 before the market collapsed. (Adjusted for inflation, prices will still be some 25 percent below that peak.)

However, the trends at the national level mask wide variations among states and among metropolitan areas. There are clear winners and losers. For example, among the 50 largest metropolitan areas ranked by the expected increase in prices between 2012 and 2018, the top five will see prices rise an average of 32 percent while the bottom five will average only 11 percent during the same time period.

The second part of the report shares a startling insight into the distribution of housing wealth in the United States.

In 2012, the top 10 percent of the 2,200 cities and towns analyzed, ranked by the aggregate value of owner-occupied housing in each, held 52 percent of total housing wealth, equivalent to nearly $4.4 trillion. The bottom 40 percent held only 8 percent, worth $700 billion.

This is a striking discovery, emphasizing the concentration of wealth and income in a relatively small number of large cities and towns.

What follows takes this discovery to its logical conclusion and is the most important contribution the report makes to an understanding of what is happening in America today. We describe nine distinct types of communities that emerge from our economic analysis of the 2,200 cities and towns and our consumer research.

At one end of the spectrum lie "Affluent Metro-burbs"—prosperous, vibrant communities that are located near big cities and offer many of the advantages of city living, such as easy access to shops and services, with none of the drawbacks. At the other end lie "Endangered Communities," struggling to improve their prospects against high odds: depressed home values, the highest levels of poverty in the land, and the fastest contraction of job opportunities. The seven kinds of community in between mark steps along the spectrum from "affluent" to "endangered." Each provides specific opportunities and challenges for public- and private-sector leaders.

The Evolution of U.S. Housing Demand

A FORECAST of the health of the U.S. housing market is a forecast of the health of the U.S. economy. Housing is an important engine of economic growth, given that U.S. consumers spend some $2 trillion a year on housing, triggering billions more spending in adjacent industries such as construction, banking, automotive, retailing, and telecommunications.

The housing market directly influences consumer confidence, as a family's house is often their single biggest asset and one of the largest annual expense drivers. What people spend on their homes in the way of rent, mortgages, home furnishings, and refurbishments both reflects and influences consumers' sense of economic security.

Housing is also a social barometer. Drive through any community in America and you inevitably make judgments about the well-being of its inhabitants and the community's future prospects; the type of homes found in the neighborhood, their density and physical appearance, all speak volumes about these things.

To gauge the future health of the U.S. housing market, we looked at how home prices, home sales, and construction are likely to evolve over the next five years.

The big picture is encouraging. At the national level, there will be a continued, steady recovery of the housing market, with the median price for an existing single-family home set to rise by an average of just over 2 percent between 2015 and 2018. But this recovery masks wide local discrepancies, with some markets soaring ahead and others still very much distressed.

THE NATIONAL OUTLOOK

For several years after the recession, the U.S. residential housing market lagged the recovery in the broader economy. Now, however, it too is in the recovery phase, judging by three key measures—home prices, existing home sales, and new home construction.

In terms of prices, the aggregate, national-level improvement does not resemble a rapid, V-shaped recovery, in which the pace of price rises matches the pace of earlier declines. Instead, it is a steady, moderate recovery that should continue through 2018.

True, there was a 21 percent jump in the Case-Shiller U.S. National Home Price Index: Composite 20 between January 2012 and November 2013. But this is not indicative of future trends, fueled as it was in large part by investors buying up swaths of distressed homes for rent, rather than by economic fundamentals alone. Now, with prices firmer and the number of distressed or foreclosed properties down, the market is stabilizing. More homeowners are looking to sell than previously, so inventories will rise; that and the expected rise in mortgage rates and only tepid median household income gains will moderate future house price rises.

Hence, the Demand Institute forecasts that price appreciation will slow, toward an average of 2.1 percent between 2015 and 2018 as supply and demand move into equilibrium. By 2018, the national median price for such a home will not quite have reached its nominal 2006 peak, but it will be close. Adjusted for expected inflation rates, however, the median home price will stand 25 percent below its 2006 level.

The main driver of housing demand in the next five years will be the number of people forming new households. For almost six years following the financial crisis, many young people found it difficult to set out alone financially. Now, with U.S. economic growth forecast to strengthen moderately and better employment prospects, their confidence levels are encouraging them to leave their childhood homes or shared rental accommodation and form independent households.

In 2014, household formation is likely to snap back to a rate of nearly 1.3 million net new households. This rebound in household formation will fuel a higher pace of housing completions, which collapsed in the Great Recession. Total housing completions will near 1.5 million by 2015.

Despite all this, the research shows home ownership will still not rise above 65.5 percent of all householders by 2018, compared with 69 percent near the height of the housing bubble. This is partly due to the high number of foreclosures during the recession, and partly due to the fact that a considerable proportion of those forming new households in the next five years will still need to rent rather than buy due to ongoing financial constraints. In 2018, 30 percent of new home completions will be multi-family units, double the proportion at the height of the boom. Most multi-family dwellings are rented.

THE STATE OUTLOOK

The steady recovery of the housing market at the national level will mask great disparity in price increases between states [see Exhibit 1].

The states likely to see the strongest rise in the median price of an existing single-family home, measured from the market trough in early 2012 to the end of 2018, are New Mexico (33 percent), Mississippi (32 percent), Maine (31 percent), Illinois (31 percent), and New Hampshire (28 percent). Those with the lowest projected price rises are Washington, D.C. (6 percent), Minnesota (13 percent), Virginia (14 percent), New York (14 percent), and Alaska (15 percent).[1]

States also differ in the extent to which they will recover their post-bubble losses. While forecasts show the median price for a single-family home at the national level will be approaching its pre-crisis peak by 2018 in nominal terms, this will not be the case in 17 states.

In most cases, the extent of the recovery is closely related to the extent to which prices were inflated during the bubble—and subsequently crashed. For example, in Nevada, prices are likely to be 45 percent below their 2006 peak by 2018—a similar level as in 2002. Not coincidentally, Nevada was one of the states to experience the largest price appreciation during the boom and the hardest price fall: prices plunged 60 percent peak-to-trough. Other sun-belt states that recorded red-hot price increases show similar trends. By 2018, prices in Arizona, Florida, California, and Georgia will still be between 19 percent and 29 percent below their pre-crisis peaks.

At the other end of the spectrum, the median price of a single-family home in North Dakota is poised to rise 42 percent above its 2007 level by 2018—a particularly strong growth rate given that the shale energy boom and its impact on the local economy protected home prices during the Great Recession. Prices in Texas are on track to rise 27 percent above their pre-recession peaks by 2018, lifted as in North Dakota by the energy boom. South Dakota and Nebraska will also rise 27 percent and 29 percent respectively, though for different reasons.

It should be noted, however, that in most states there is no sign of the kind of overheated markets seen in the last decade. It is simply a recovery to equilibrium. In only 11 states will demand for single-family homes exceed pre-crisis peaks by 2018. Once again, South Dakota, Nebraska, and Texas number among them. When it comes to house sales, California, Texas, Florida, Illinois and Ohio are capturing the highest proportion of existing single-family home sales, reflecting the fact that they have the highest share of the U.S. population. Their share of these sales will reach 38 percent by 2018.

In every state, however, the number of single-family home completions will remain below the previous peak over the five-year period. This is to be expected, given that speculative fever pushed single-family housing construction well above what the underlying fundamentals could support over the longer term. By contrast, completions of multi-family homes will continue to rise in many states and remain at a higher share of total completions than pre-crisis, reflecting a shift in demand from owners to renters.

1 The market peak and bottom varied across U.S. geographies. We use the first quarter of 2012 as the national trough. By that point most regions of the country had reached their troughs, and the S&P/Case-Shiller U.S. National Home Price Index hit bottom in March 2012.

Exhibit 1

All 50 States plus the District of Columbia

	Actual median price 2012 (thousands)	Forecasted median price 2015 (thousands)	Forecasted median price 2018 (thousands)	Price gain 2012 to 2015	Price gain 2012 to 2018
New Mexico	$150	$175	$200	17%	33%
Mississippi	110	130	145	18%	32%
Maine	171	198	225	16%	31%
Illinois	142	164	186	15%	31%
New Hampshire	185	210	237	13%	28%
Connecticut	256	294	327	15%	28%
New Jersey	300	340	383	13%	28%
Wisconsin	139	160	176	15%	27%
Missouri	118	134	150	14%	27%
South Carolina	149	172	189	15%	27%
Pennsylvania	155	176	196	14%	26%
Idaho	132	149	165	13%	25%
Michigan	86	96	107	11%	25%
Hawaii	524	600	656	15%	25%
Nebraska	132	150	165	13%	24%
Alabama	129	144	160	12%	24%
Massachusetts	306	342	378	12%	24%
Maryland	274	305	338	11%	23%
North Carolina	145	162	179	11%	23%
Oregon	204	226	250	11%	23%
Florida	152	163	187	7%	23%
Ohio	112	123	137	10%	22%
North Dakota	151	170	184	12%	22%
Louisiana	140	159	171	14%	22%
Kansas	126	141	154	12%	22%
Indiana	113	125	137	11%	22%
Georgia	103	113	125	10%	21%
Delaware	191	207	231	8%	21%
Kentucky	123	137	149	11%	20%
Arizona	149	158	180	6%	20%
Tennessee	134	148	160	10%	20%
West Virginia	119	131	142	11%	19%
Iowa	132	146	157	10%	19%
South Dakota	127	140	151	10%	19%
Nevada	150	157	179	4%	19%
Vermont	223	249	265	12%	19%
Texas	151	167	179	11%	18%
Washington	244	264	288	8%	18%
Arkansas	111	121	131	9%	18%
Rhode Island	214	227	250	6%	17%
Utah	168	180	196	7%	17%
Oklahoma	130	140	151	8%	16%
Wyoming	151	163	176	7%	16%
Colorado	228	243	264	7%	16%
Montana	149	159	172	6%	15%
California	345	363	397	5%	15%
Alaska	196	209	225	7%	15%
New York	226	236	257	5%	14%
Virginia	240	256	273	7%	14%
Minnesota	148	157	167	6%	13%
Dist. of Columbia	330	338	352	2	6

Note: Median prices of existing single-family homes | Source: The Demand Institute

THE METROPOLITAN OUTLOOK

In addition to forecasting how home prices will evolve within each state, our research projected price movements within the largest 50 metropolitan statistical areas (MSAs), as measured by population [see Exhibit 2].

The MSAs likely to see the strongest median increase in the price of a single-family home between 2012 and 2018 will be Memphis (33 percent), Tampa (33 percent), Jacksonville (32 percent), Milwaukee (30 percent), and St. Louis (30 percent). Those with the lowest projected price appreciation over the same time period will be Washington, D.C. (7 percent), Oklahoma City (10 percent), Denver (11 percent), Minneapolis (12 percent), and Phoenix (13 percent).

The median price of a single-family home will surpass its prior peak by 2018 in about half of the MSAs analyzed. In Buffalo, Austin, and Pittsburgh, for example, prices will be approximately 60 percent, 40 percent and 30 percent respectively above their mid-2000 levels. At the other end of the scale, prices in Detroit will be 49 percent below the peak. Sun-belt MSAs such as Riverside, Orlando, Sacramento, Miami, Phoenix, and Atlanta, where prices were particularly high, will also fare poorly.

Forecasts of existing single-family home sales show a similarly wide range, with Detroit, Phoenix, and Atlanta among those with least sales activity. Those with the strongest projected rise in sales of existing homes include Sacramento and Riverside. In these metropolitan areas, price levels will remain below their peaks—evidence of the fact that there is not always a correlation between price levels and sales volume—and we project home completions will remain muted in most areas.

Exhibit 2

50 Largest U.S. Metropolitan Areas

	Actual median price 2012 (thousands)	Forecasted median price 2015 (thousands)	Forecasted median price 2018 (thousands)	Price gain 2012 to 2015	Price gain 2012 to 2018
Memphis, TN-MS-AR	$118	$142	$157	20%	33%
Tampa-St. Petersburg-Clearwater, FL	138	163	184	18%	33%
Jacksonville, FL	132	147	174	12%	32%
Milwaukee-Waukesha-West Allis, WI	185	227	242	23%	30%
St. Louis, MO-IL	123	146	160	19%	30%
Baltimore-Towson, MD	243	277	315	14%	29%
Chicago-Joliet-Naperville, IL-IN-WI	175	202	225	16%	29%
Detroit-Warren-Livonia, MI	67	77	86	14%	28%
New Orleans-Metairie-Kenner, LA	156	188	198	20%	27%
Pittsburgh, PA	126	145	158	15%	26%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	212	241	267	14%	26%
Columbus, OH	138	158	173	14%	25%
Buffalo-Niagara Falls, NY	128	149	161	16%	25%
Virginia Beach-Norfolk-Newport News, VA-NC	188	212	234	13%	25%
Sacramento--Arden-Arcade--Roseville, CA	194	219	241	13%	25%
Hartford-West Hartford-East Hartford, CT	220	253	273	15%	24%
Orlando-Kissimmee-Sanford, FL	140	156	173	12%	24%
Charlotte-Gastonia-Rock Hill, NC-SC	157	181	194	15%	23%
Cincinnati-Middletown, OH-KY-IN	128	146	158	14%	23%
Kansas City, MO-KS	143	161	175	12%	22%
San Francisco-Oakland-Fremont, CA	670	776	814	16%	22%
Atlanta-Sandy Springs-Marietta, GA	109	127	133	16%	21%
Salt Lake City, UT	212	237	256	12%	21%
Birmingham-Hoover, AL	156	174	189	11%	21%
San Diego-Carlsbad-San Marcos, CA	408	451	488	10%	20%
Louisville-Jefferson County, KY-IN	137	152	164	11%	19%
Riverside-San Bernardino-Ontario, CA	208	224	248	8%	19%
Indianapolis-Carmel, IN	130	145	155	12%	19%
Las Vegas-Paradise, NV	147	159	174	9%	19%
Portland-Vancouver-Hillsboro, OR-WA	242	274	288	13%	19%
Boston-Cambridge-Quincy, MA-NH	350	385	415	10%	19%
Seattle-Tacoma-Bellevue, WA	315	352	371	12%	18%
Dallas-Fort Worth-Arlington, TX	160	180	187	13%	17%
Richmond, VA	218	241	254	11%	17%
New York-Northern New Jersey-Long Island, NY-NJ-PA	412	444	478	8%	16%
Providence-New Bedford-Fall River, RI-MA	219	235	253	7%	16%
Houston-Sugar Land-Baytown, TX	169	186	195	10%	15%
San Jose-Sunnyvale-Santa Clara, CA	701	780	804	11%	15%
Austin-Round Rock-San Marcos, TX	209	233	239	11%	15%
San Antonio-New Braunfels, TX	163	181	186	11%	14%
Nashville-Davidson--Murfreesboro--Franklin, TN	164	179	187	9%	14%
Miami-Fort Lauderdale-Pompano Beach, FL	210	224	240	7%	14%
Los Angeles-Long Beach-Santa Ana, CA	404	449	459	11%	13%
Raleigh-Cary, NC	188	199	212	6%	13%
Cleveland-Elyria-Mentor, OH	112	122	126	9%	13%
Phoenix-Mesa-Glendale, AZ	160	169	181	5%	13%
Minneapolis-St. Paul-Bloomington, MN-WI	179	191	201	7%	12%
Denver-Aurora-Broomfield, CO	259	278	289	7%	11%
Oklahoma City, OK	148	158	163	7%	10%
Washington-Arlington-Alexandria, DC-VA-MD-WV	363	379	387	4%	7%

Note: Median prices of existing single-family homes | Source: The Demand Institute

The Affordability Gap

The home you want typically costs more than you can afford

Many consumers are dissatisfied with their housing despite rising standards in some respects. For example, homes have grown in size in the past decades, rising from just over 1,500 square feet in the early 1970s to over 2,100 square feet in 2010, according to the U.S. Census Bureau. High expectations are perhaps fueled by the media shining a spotlight on lavish homes and lifestyles. But whatever the cause, the truth is there is a wide gap between what householders aspire to purchase and what they can afford, and even between what they spend on housing today and what they can comfortably afford.

HOUSING AFFORDABILITY

The main criterion for people acquiring a home, after safety, is affordability. Some 81 percent of households say it is very important to them that a home, whether owned or rented, meets a budget without imposing the need to make serious sacrifices.

Many households do not find that their home matches this affordability criterion. Almost half of those who are planning to move, and one-third of those who are not, are in this category. One-third of respondents to our survey said household expenses are much higher than they expected when they moved into their home. Almost half said they do not expect their financial situation to improve and thus did not believe that the gap between what they have to pay and what they can afford—the affordability gap—is likely to close.

The Harvard Joint Center for Housing Studies reported that in 2011, 37 percent of households carried a moderate or severe housing cost burden. (A moderate cost burden is defined as the need to allocate 30 to 50 percent of pretax household income to essential housing expenses: mortgage principal and interest payment, rent, insurance, taxes, and utilities. A severe burden raises the figure to 50 percent.) Our 2013 survey suggests that the situation has deteriorated further: we estimate that 41 percent carry a moderate or severe housing cost burden. More specifically, our research indicates that 25 percent of households carry a moderate burden, while another 16 percent carry a severe burden.

According to our estimates, 31 percent of those renting accommodations now spend 30 to 50 percent of their pretax household income on essential housing expenses; one in four spends over 50 percent. A primary reason is that, in the aftermath of the housing and financial crisis, there has been a marked shift away from home ownership to renting, which has significantly boosted the price of rents relative to income since 2008. The rise in rents makes it more difficult for renters to save for a down payment. Moreover, today's climate is one of tight lending conditions and weak income growth, which makes securing a mortgage and becoming a homeowner more difficult.

These conditions prevent renters who aspire to become homeowners from taking advantage of what is overall a very affordable time to purchase a home. The National Association of Realtors' national and regional affordability indexes remain at historically high levels, and we forecast these measures will remain high over the next five years, despite an anticipated moderate rise in long-term mortgage rates.

Yet despite the financial conditions that put so many constraints on the housing that people can afford—and despite the housing crisis and the accompanying drop in home prices—many still have aspirations beyond their means. Seventy-four percent of households believe that "home ownership should be an important long-term goal for people," and 77 percent state that "home ownership is an excellent investment." These numbers have changed little over the years.

Many householders hope that the dream of owning their own home will soon become a reality. More than half of survey respondents said they intend to purchase a home, many for the first time, when they next move. Half of those planning to rent their next home said they plan to purchase eventually.

Some 60 percent of those planning to move would like to live in a single-family home rather than a unit of multi-family housing. This includes those planning to rent, of whom 30 percent seek a single-family home next. Younger American householders (18- to 34-year-olds) share these aspirations: half of those intending to move plan to purchase their next home, and 60 percent plan to move into a single-family home.

However, there is evidence that some of these aspirations may go unfulfilled. First, the purchasing and financing plans of those intending to buy their next home are often not realistic. Of those planning to purchase a home and finance it with a mortgage, almost half are unlikely to obtain the mortgage they would like under their current financial circumstances, because they either lack a down payment or the means to save for one, do not have the income to support the implied mortgage payment, or are hampered by concerns about their credit history or related personal finance problems. Of those planning to purchase a home within the next five years, almost 45 percent report they do not yet have the level of savings and equity needed.

In the next five years, we project that about 4 million households will fail to realize their current purchasing or even rental aspirations. Of that number, 3.75 million currently intend to own a single-family home, 200,000 to own a multi-family home, and 200,000 to rent a single-family home.[2] All are likely to be disappointed and to be obliged instead to rent in a multi-family home.

2 These estimates were based on our housing market forecasts compared with stated consumer intent in our 2013 survey. They also incorporate population projections to adjust for changes in the size and composition of households from our survey date through 2018.

U.S. Housing In The Context Of American Communities

THE EXTENT to which figures on the health of the national housing market can mask significant variations among and within states should be clear. But what of variations at a more local level, among America's cities and towns?

As noted in the introduction, we looked at over 500 different metrics in 2,200 of America's largest communities. The aim was to understand not only home price movements, but also a whole range of economic indicators, many of which are closely related to the health of local housing markets and the health of local communities.

Some of the findings are startling. Much has been written about the growing wealth and income gap between America's rich and poor. But our research has measured the wealth gap that exists not just among individuals, but among entire communities as measured by the value of local housing. The gap between rich and poor communities is considerable: household wealth is a dominant factor in shaping American society today.

Exhibit 3 shows the 2,200 communities we studied aggregated into quintiles, along with the top 10 percent, by the total market value of the owner-occupied housing inventory within each group. In 2012, the top 10 percent of all these communities held 52 percent of aggregate housing value, worth nearly $4.4 trillion. This group also accounted for 41 percent of aggregate population growth between 2000 and 2012, 49 percent of the growth in employment opportunities, 51 percent of the increase in income, and a full 53 percent of the gains in aggregate housing value. In nominal terms, the value of this group's housing rose 73 percent over the period, from $2.5 trillion to nearly $4.4 trillion. The median home price in this segment in 2012 was $241,000.

Contrast this with the bottom 40 percent, which accounted for just 8 percent of the housing value of all 2,200 communities. This segment captured only 11 percent of population growth, 9 percent of the growth in employment opportunities, 9 percent of the increase in income, and just 8 percent of the increase in the value of housing. In nominal terms, the value of housing in this bottom 40 percent grew by 59 percent in 12 years, from a far lower starting point: from $440 billion to $700 billion. The 2012 median home price in this segment was $127,000.

This means that while the top 10 percent of cities and towns added nearly $2 trillion in nominal dollars to their housing wealth over the course of 12 years, the bottom 40 percent added just $260 billion.

The aggregate differences in housing wealth also reflect differences in housing wealth per household. Housing wealth per household in the top 10 percent of communities was 103 percent higher in 2012 than in the bottom 40 percent, having grown by 57 percent between 2000 and 2012. This compares with 49 percent growth in the bottom 40 percent.

Assuming a similar disparity in the rate of growth in aggregate housing values over the next 10 years, the top 10 percent of communities could see their total housing value rise over 7 times more than that of the bottom 40 percent of communities. That would mean value gains worth $1.9 trillion for the top 10 percent, compared with only $260 billion for the bottom 40 percent. Given the economic and social conditions that are closely connected to housing wealth, that differential is significant, presaging the possibility of an ever-widening gap in the health of America's richer and poorer communities in coming years.

In a positive cycle—when, that is, a community's wealth is increasing—a more vibrant and competitive labor market implies more jobs and more money flowing into households. This in turn means more tax revenues, which support public infrastructure such as schools, public transit, police and fire departments, roads, parks, community centers, and local support programs. It also stimulates more spending in the local economy. All this makes a community more attractive to people who are deciding where to live, which drives up demand for homes. Increasing demand for homes drives up home sales and prices, which builds family wealth and increases economic confidence. That rising confidence encourages more investment in the community. And so on.

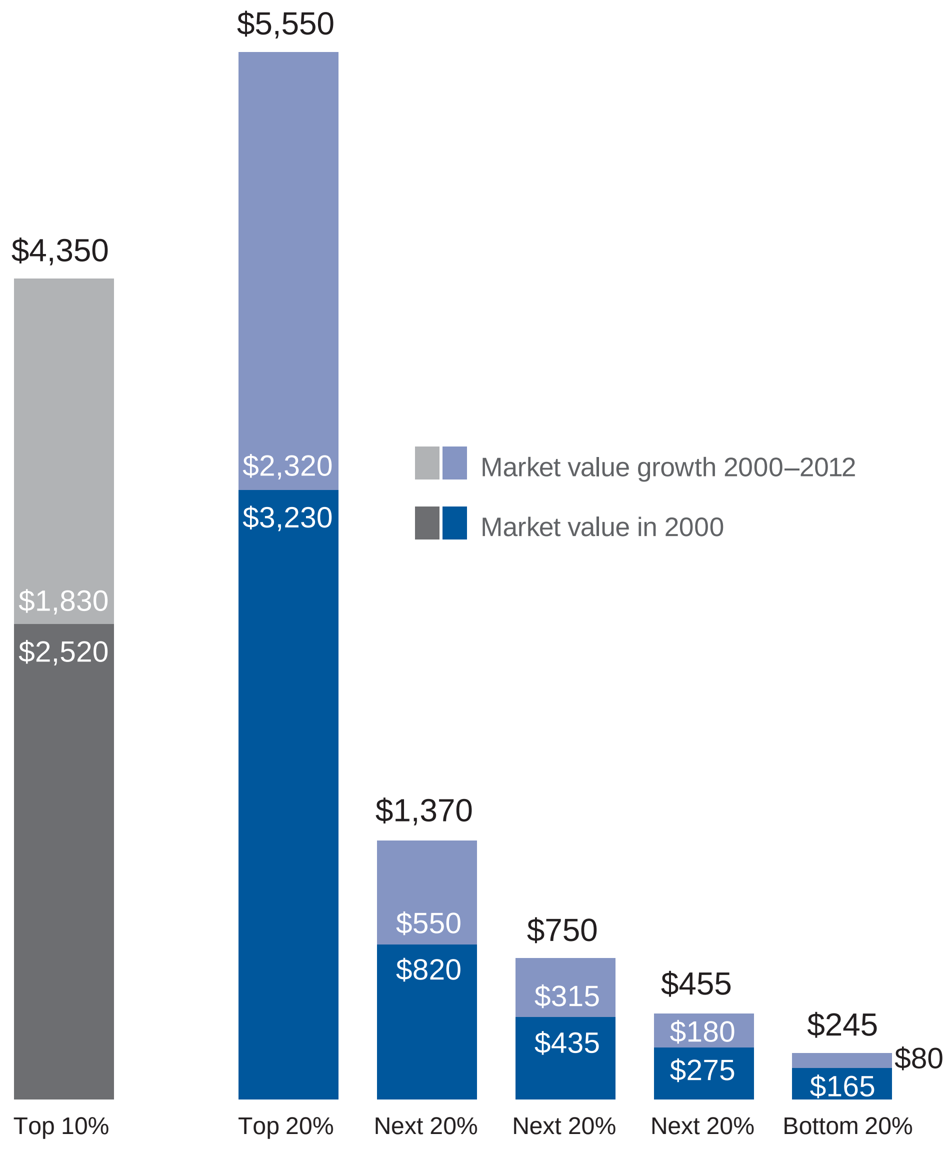
In a negative cycle, companies choose to move parts or all of their business out of the community, eroding employment opportunities. With fewer jobs and less attractive compensation (the two typically go together, with downward pressure on compensation as labor demand decreases), tax dollars fall, reducing the level of investment in community infrastructure and public services. Consumer demand for goods and services also falls. As people start to leave the community to find work elsewhere, or as fewer move in, home values decline. Unless something changes to boost local employment, the downward spiral continues.

There was remarkably little upward or downward mobility in housing values among the 2,200 cities and towns we studied. According to our research, about two dozen moved either into or out of the top 10 percent between 2000 and 2012. Several of those moving up are in California; others include Frisco, TX; Jersey City, NJ; and Sioux Falls, SD. Several cities that moved out of the top 10 percent are in Michigan; others include Akron, OH; Bloomington, MN; and Laguna Beach, CA.

Is the upward or downward spiral always this straightforward? No. There can be deviations. Ultimately, however, the interplay of one or the other set of forces necessarily makes a community stronger or weaker over time. With home prices showing little sign of recovery in many of these communities or at best remaining well below their pre-crash peaks, how will residents here build individual savings and wealth, and how will local authorities fund improved services? Absent unexpected developments, it seems highly likely that the weakest communities will lag further and further behind.

Exhibit 3

U.S. Aggregate Housing Market Value in 2012 Across 2,200 American Cities (Billions)



Note: Distribution based on analyzing the largest U.S. incorporated municipalities
Source: The Demand Institute

2,200
Cities

NINE U.S. COMMUNITY PROFILES

220 **Affluent Metroburbs**
Established, wealthy communities near big cities that offer an ideal mix of urban and suburban lifestyles.

233 **Cosmopolitan Suburbs**
Fast-growing, contemporary suburbs that offer distinctive services and wide-ranging amenities.

475 **Traditional Suburbs**
Solid middle-class communities that represent a cornerstone of American family life.

106 **Vacation & Retirement Destinations**
Special-purpose communities in warm climates that attract vacationing families and retirees.

63 **Historic Skyline Cities**
America's urban core — largely concentrated on the East Coast and reaching back to the country's founding.

377 **Transitional Cities**
Older, inland cities undergoing transition; higher reliance on government jobs to sustain the local economy.

203 **Deflated-Bubble Communities**
Ethnically diverse communities that were hit hard by the real estate bubble and bust over the last decade.

525 **Challenged Communities**
Cities and towns facing economic stress due to a weak private sector and limited employment opportunities.

170 **Endangered Communities**
Truly distressed cities and towns with weak housing markets and severe socioeconomic pressures.