How Housing Is Making America's Wealth Divide Worse

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Homeownership has long been a central part of the American Dream. But for many families and communities, it's turning into a nightmare.

A new report from the Demand Institute highlights just how geographically uneven the housing market has become [PDF]. The report analyzed housing market data for states, metropolitan areas, and 2,200 of America's largest cities and towns, which account for about half of the country's total.

Over the next five years, the housing market is projected to return to a more normal pace following an accelerated recovery on the heels of the economic crisis. The high-flying, double-digit growth we've seen over the past couple of years – driven largely by investors buying up distressed homes to use as rentals – are largely over, according to the report.

The study projects that the rate of growth in housing prices will slow substantially, to an average of 2.1 percent between 2015 and 2018. This rate means that overall prices will return to their pre-recession peaks over the next four years (though will still be low, adjusted for inflation).

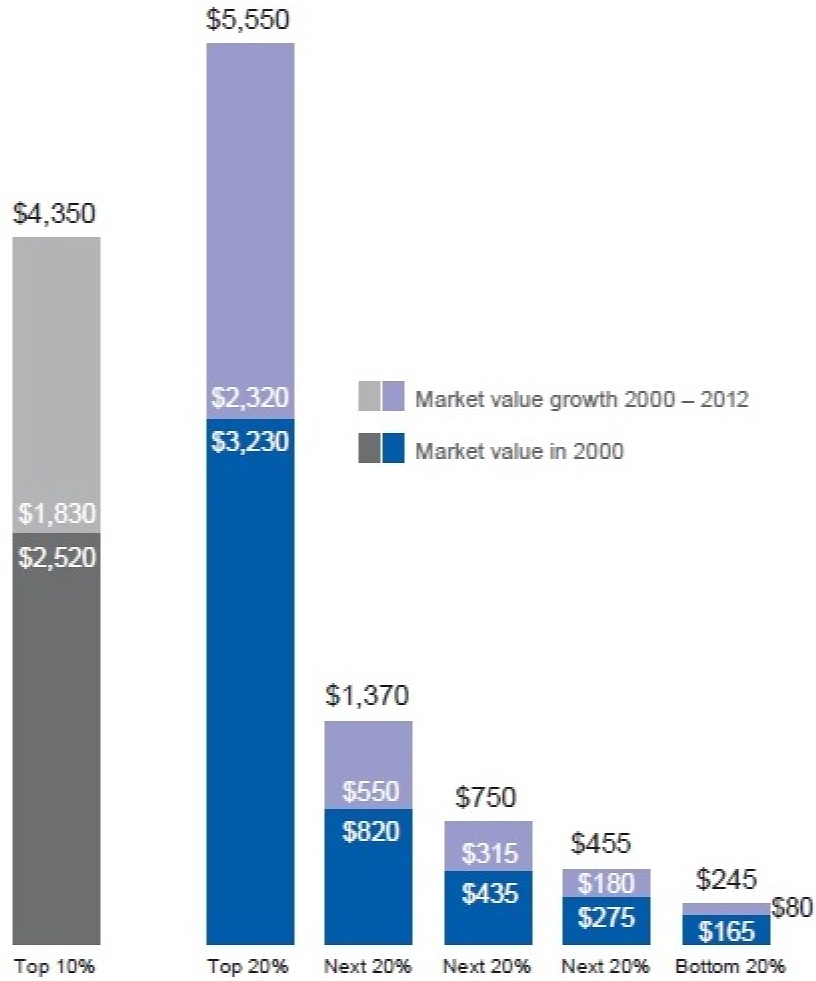
But the housing market will remain highly uneven. Among the 50 largest metropolitan areas tracked by the report, the biggest gains will occur in places hard-hit by the housing crisis. The report found that, between 2012 and 2018, the five metros that will see the most significant jump in median housing prices – Memphis, Tennessee; Tampa, Florida; Jacksonville, Florida; Milwaukee, Wisconsin; and St. Louis, Missouri – will average 32 percent growth. These are mainly places that are still rebounding from the devastation of the crisis. The bottom five – Washington, D.C.; Oklahoma City, Oklahoma; Denver, Colorado; Minneapolis, Minnesota; and Phoenix, Arizona – will average just 11 percent growth in price during this time period. Interestingly enough, the housing markets in these slower-performers represent a range of types, from strong and resilient markets like D.C. to hard hit ones like Phoenix.

The existing gap in median housing prices is enormous and promises to grow even larger by 2018. Among large metros, projected median prices range from more than $800,000 in parts of the Bay Area to $155,000 in Indianapolis to just $86,000 in Detroit.

These differences become even clearer in the most interesting parts of the report, which dig down into the housing trends and market values. The graph below, from the report, breaks down the 2,200 towns into quintiles, as ranked by the aggregate value of their owner-occupied housing.

Exhibit 3

U.S. Aggregate Housing Market Value in 2012
across the 2,200 largest American cities (Billions)



Source: The Demand Institute

The ten percent of communities at the very top of the spectrum account for more than half (52 percent) of the nation's housing value – nearly $4.4 trillion in real estate assets. Despite the recession, these communities have experienced a 73 percent growth in housing value since 2000. Between 2000 and 2012, the group of cities in the top 10 percent also experienced 51 percent of the increase in income and 49 percent of the employment opportunities.

At the other end of the spectrum are the cities and towns where housing is worth far less and continues to be a far weaker investment. The bottom 40 percent of the report's sample accounted for a mere 8 percent of the total housing wealth. The bottom 40 percent of communities have seen just 9 percent of the increase in income and 9 percent of the growth in employment opportunities from 2000 to 2012.

These differences have had huge implications for the value of housing investment in different parts of the country. Between 2000 and 2012, homeowners in the top 10 percent added $2 trillion in nominal dollars to their housing wealth. In the bottom 40 percent of cities, that figure stands at a significantly smaller $260 billion.

Based on this market data and interviews with 10,000 individual householders, the report also defines nine basic typologies that each of these 2,200 communities can be categorized within. Take a look at their nine community profiles, with 2013 home prices and 2012 household incomes, below. (You can also dig into the community-level analysis with their interactive maphere).

- **Affluent Metroburbs:** 220 communities, home to nearly 15 million Americans, largely on the East and West Coasts, with median household incomes of $80,000 and median home prices of $490,000.
- **Cosmopolitan Suburbs:** 233 fast growing, diverse communities, home to 11 million Americans, with median household incomes of $69,000 and median home prices of $183,000.
- **Traditional suburbs:** 475 mainly middle-class, older suburbs, home to 21 million Americans, with median household incomes of $61,000 and media housing prices of $180,000.
- **Vacation and Retirement Destinations:** 106 communities of retirees and service workers, largely in Florida and the Southwest and home to nearly 5 million Americans, with median household incomes of $41,000 and median home prices were $153,000.
- **Historic Skyline Cities:** 63 older urban core cities in the Northeast, New England and Midwest, like Providence, Rhode Island, and Milwaukee Wisconsin, that are home to 23 million Americans. They are distinguished by clusters of wealth and poverty with median incomes $40,000 and home prices of $184,000.
- **Transitional Cities:** 377 older, mainly inland communities housing almost 40 million Americans. These communities have less vibrant private sector economies and tend to depend on a mix of government and "eds and meds" jobs. They have median household incomes of $42,000 and home prices of $142,000.
- **Deflated-Bubble Communities:** 203 communities, largely in California and the Sunbelt, that are home to 19 million Americans. These towns grew during the bubble and are still feeling the brunt of the foreclosure crisis, with median household incomes of $45,000 and median home prices of $159,000.
- **Challenged Communities:** 525 struggling, former industrial centers of the Rustbelt and adjacent areas of the south. Home to 25 million Americans, these cities had median household incomes of $37,000 and median home prices of $85,000.
- **Endangered communities:** 170 of the most distressed communities, home to nearly 9 million Americans, centered mainly in hard hit areas of them Midwest and Southeast. As the report notes, these are “experiencing a "perfect storm" of downward economic pressures and declining future prospects. They had median household incomes of $32,000 and home prices of $64,000**.**

The report provides clear evidence of the deep divide in housing future and fortunes across America, which compounds the effects of the country's mounting income inequality. As the report concludes, there is a very real "wealth gap that exists not just among individuals, but among entire communities as measured by the value of local housing."

Top Image: A for-sale sign hangs in front of a house in Mount Lebanon, Pa., Jan. 9, 2014 (AP Photo/Gene J. Puskar).