Spotlight on the Housing Market in the Baltimore-Columbia-Towson, MD MSA

The Obama Administration's Efforts To Stabilize the Housing Market and Help American Homeowners | April 2015

The Baltimore-Columbia-Towson, MD Metropolitan Statistical Area (Baltimore MSA) is located in central Maryland and includes the independent city of Baltimore and 6 counties: Anne Arundel, Baltimore, Carroll, Harford, Howard, and Queen Anne's. As with other areas in the Mid-Atlantic, the foreclosure crisis was less severe than in most parts of the country, but the recovery from the crisis and subsequent recession has been somewhat slower than for the nation overall. Home prices appreciated 30 percent more than the national rate during the housing bubble, but the ensuing decline in prices was less steep—26 percent compared with a national decline of 32 percent. The lower property values and the resulting underwater mortgages were primarily fueled by investor speculation and unsustainable mortgage lending going into the crisis. The rise in unemployment and underemployment during the recession added further to rising defaults and the decline in property values. The share of mortgages at risk of foreclosure (those 90 or more days delinquent or in the foreclosure process) did not peak until the beginning of 2013—three years later than for the nation—but reached a similar rate. Contributing to the later peak in the share of mortgages in the foreclosure pipeline in Baltimore was the passage of state legislation in mid-2010 that allowed for foreclosure mediation in an effort to prevent foreclosures. Baltimore currently ranks 83rd among metropolitan areas for share of mortgages at risk of foreclosure. The share of distressed mortgages has declined in Baltimore—the result of nearly five years of moderate job growth, state legislation that curtailed foreclosure actions, and the local use of the Administration's mortgage assistance programs. The need for recovery efforts continues, however, as Baltimore ranks high among metropolitan areas for the proportion of mortgages that remain underwater. The Administration's broad approach to stabilizing the housing market has been a real help to homeowners in Baltimore and the surrounding area. This addendum to the Obama Administration's Housing Scorecard provides a summary of local economic trends and conditions and the impact of the Administration's efforts to stabilize the housing market and help local homeowners.

Population Growth, Employment, and Housing Market:

With more than 2.7 million people according to the most recent Census, the Baltimore MSA is the 20th largest in the nation. From 2000 to 2010, Baltimore's population increased by an average of 15,750 people, or 0.6 percent, a year. Natural population growth (births minus deaths) accounted for 74 percent of the population growth during this period. An average of nearly 4,100 people per year moved to the Baltimore MSA during the last decade, accounting for the remaining 26 percent of the net population increase. The highest influx of people moving to the area—an average of 8,000 annually—occurred between the years 2001 and 2004.

Baltimore MSA Housing Unit Growth Outpaced Population and Household Growth During the Past Decade

Date of Census	4/1/2000	4/1/2010
Baltimore MSA Population	2,552,994	2,710,489
Annual Growth Rate	—	0.6%
Baltimore MSA Households	974,071	1,038,765
Annual Growth Rate	—	0.7%
Baltimore MSA Housing Units	1,048,046	1,132,251
Annual Growth Rate	—	0.8%

Source: Census Bureau (2000 and 2010 Decennial)

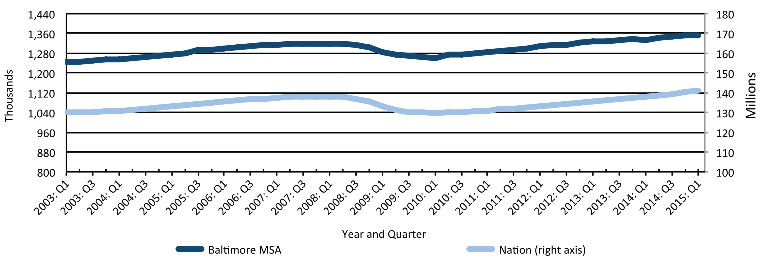
During the decade spanned by the Census, new housing construction grew faster than household growth in Baltimore. Net annual housing unit growth of 0.8 percent in the Baltimore metropolitan area during the last decade was greater than the corresponding population and household growth rates of 0.6 and 0.7 percent, respectively. The rate of increase in vacant units in the Baltimore metro area during the 2000s was considerably less than the national rate, however, with vacant units increasing at an average annual rate of 2.6 percent, compared with 4.4 percent nationally, according to the Census Bureau. Investor speculation stimulated overbuilding in the years leading up to the housing crisis, with the increase in the share of investor purchases very similar to the national upturn. Specifically, from 2000 to 2005, investor home sales rose from 7.2 to 13.7 percent of total sales in the Baltimore metro area, while the corresponding increase for the nation was from 8.0 to 14.6 percent. Subprime lending also contributed to the overbuilding. A study by the National Bureau of Economic Research indicates that the Baltimore MSA ranked 31st out of the top 107 metropolitan areas with the highest share of subprime originations during 2005, with subprime originations as a share of new mortgages at 22 percent in Baltimore. A conservative estimate based on

HMDA (Home Mortgage Disclosure Act) data indicates that high-cost (proxy for subprime) originations tripled nationally between 1998 and 2005, while a study by the Center for Responsible Lending estimates that approximately 90 percent of subprime mortgages during that period faced increases in monthly payments of 30 to 50 percent within a few years, causing borrowers with subprime loans to typically default at more than 7 times the rate of other mortgages.

Baltimore's economy is improving. The local economy was growing moderately before it began to decline in 2008. From the second quarter of 2003 through the first quarter of 2008, jobs increased at an average annual rate of 1.2 percent, the same as the national increase during this period. The impact of the Great Recession was not as severe for the Baltimore metropolitan area as it was for the nation. Jobs in the MSA declined at an annual rate of 2.2 percent, from the second quarter of 2008 through the first quarter of 2010, compared with a national decline of 3.1 percent. The recovery from the recession has been somewhat weaker for Baltimore than for the nation, however, with jobs increasing at an annual rate of 1.5 percent from the second quarter of 2010 through the first quarter of 2015, compared with a 1.7-percent increase nationally.

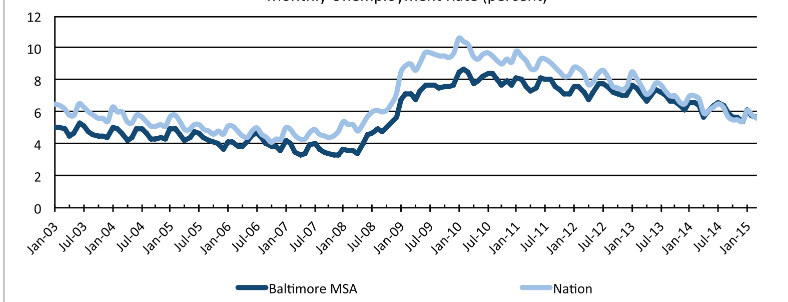
The Baltimore MSA is home to several large hospitals and institutions of higher learning. During the recent recession, a period when every other private sector in the MSA lost jobs, the education and health services sector expanded at an average annual rate of 2.4 percent. Job losses were most severe during this period in the construction sector, where jobs declined at an annual rate of 10.9 percent and accounted for nearly 30 percent of the loss in employment in the MSA. Job losses were also fairly substantial for the information sector (-6.7 percent), manufacturing (-5.9 percent) and retail trade (-4.8 percent). The recovery from the recession has been led by the professional and business services sector (4.5 percent) and leisure and hospitality (4.0 percent), with jobs in education and health services increasing at an average rate of 1.9 percent. Growth in these sectors was offset by average annual job losses of 4.4 percent in information and 2.2 percent in manufacturing. The not seasonally adjusted (NSA) unemployment rate for the Baltimore MSA peaked at 8.7 percent in February 2010 and as of March 2015 has fallen to 5.7 percent (seasonally adjusted data for metro areas are currently unavailable). In comparison, the NSA unemployment rate for the nation peaked in January 2010 at 10.6 percent and fell to 5.6 percent by March 2015. The national seasonally adjusted unemployment rate peaked in October 2009 at 10.0 percent, falling to 5.5 percent by March 2015.

Job Market Conditions Are Improving for Baltimore and the Nation
Quarterly Nonfarm Employment



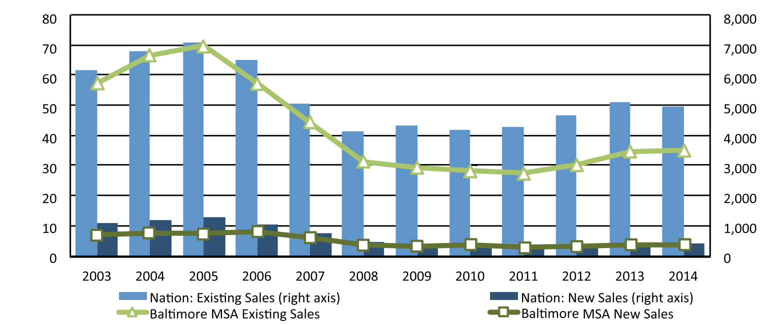
Seasonally adjusted data
Source: Bureau of Labor Statistics

The Unemployment Rate in Baltimore Is Slightly Above the National Rate
Monthly Unemployment Rate (percent)



Data are not seasonally adjusted because SA data for Baltimore are not currently available.
Source: Bureau of Labor Statistics

New and Existing Home Sales: Baltimore Compared With the Nation
Annual Home Sales (thousands)



Sources: CoreLogic, HUD/Census Bureau, and National Association of Realtors.

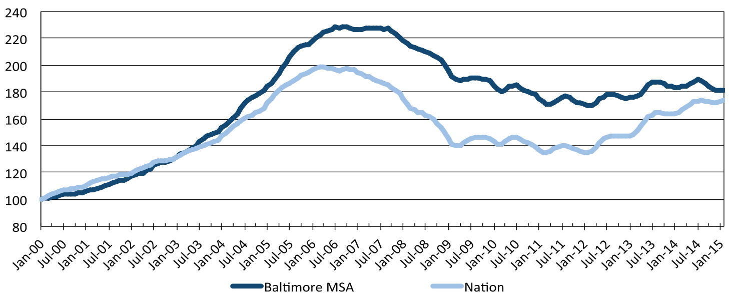
Home sales in Baltimore have improved, but growth slowed in 2014. After peaking at 69,700 units sold in 2005, purchases of previously owned (existing) homes in the Baltimore MSA declined between 2006 and 2011 by an average annual rate of 10 percent. Existing home sales have risen since 2011 by an average annual rate of 9 percent, although the pace slowed to only 1 percent growth in 2014. By comparison, existing home sales in the nation peaked in 2005 and declined by an annual rate of 14 percent between 2006 and 2008. Existing home sales began to rise again nationally in 2009, increasing at an average annual rate of almost 5 percent from 2009 to 2013, but slowed in 2014, declining by 3 percent. As for new home sales, purchases peaked in 2006 at 7,875 units in the Baltimore MSA before falling from 2007 through 2009 at an annual rate of nearly 20 percent. New home sales increased at an annual rate of 4 percent (albeit on a low base) from 2012 to 2013, but the pace slowed in 2014, declining by nearly 2 percent. Nationally, new home sales peaked in 2005 before declining by an annual rate of 13 percent from 2006 through 2011; sales have increased since at an annual rate of 14 percent (also on a low base) from 2012 through 2014.

Home prices in Baltimore rose more steeply but declined less than for the nation during the housing crisis. The CoreLogic repeat-sales house price index (HPI) shows that home prices in the Baltimore MSA rose nearly 30 percent more than for the rest of the nation during the housing bubble but had a less pronounced decline of 26 percent from their peak in September 2006 to their low in March 2012. The national peak-to-low decline was 32 percent (from April 2006 to March 2011). Investor speculation had an impact on the rise in home prices in the Baltimore MSA, with sales to investors averaging 11 percent in Baltimore during the bubble, but lower than the 13 percent share nationally. As described earlier, subprime lending was also a factor in fueling home prices in the Baltimore MSA. Since reaching their low point, home prices in the Baltimore metropolitan area have risen 6 percent—one-fifth the 30 percent low-to-current increase for the nation. Home values in the Baltimore MSA are currently on par with prices in late 2004, while home prices in the nation are on par with early-2005 prices.

The apartment vacancy rate in Baltimore has tracked fairly closely with the national rate during the past two years. According to MPF Research, the Baltimore MSA apartment vacancy rate was 4.7 percent in the first quarter of 2015, up from 4.6 percent a year earlier, representing generally balanced market conditions. The uptick in the vacancy rate occurred with the completion of a large number of new apartment projects during the past year; the demand for rental units has been especially strong in Baltimore City. The national apartment vacancy rate was 4.5 percent during the first quarter of 2015, down from 5.0 percent a year earlier. During the first quarter of 2015, the average apartment rent in the Baltimore MSA increased 1.6 percent from a year earlier to $1,211, compared with a nationwide increase of 5.0 percent to $1,186. Overall rental market conditions in the Baltimore metro area remain weaker than the apartment market due to a high number

Baltimore Home Prices Declined by Less After Rising More Sharply Than for the Nation

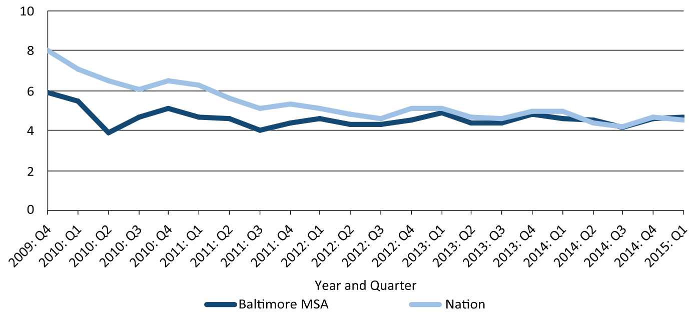
Repeat-Sales House Price Index (Jan 2000 = 100)



Source: CoreLogic

The Baltimore Apartment Vacancy Rate Is Slightly Above the National Rate

Quarterly Apartment Rental Vacancy Rates (Percent)



Source: MPF Research

of vacant single-family rental properties. According to the CPS/HVS (Current Population Survey/Housing Vacancy Survey) conducted by the Census Bureau, as of the first quarter of 2015 the overall rental vacancy rate for the Baltimore MSA was 9.2 percent compared to a national rate of 7.1 percent. The 2013 ACS (American Community Survey) indicates that single-family homes accounted for 38 percent of all rental units in the Baltimore MSA, while representing 35 percent of all rental units in the nation.

Trends in Mortgage Delinquencies and Foreclosures:

The share of distressed mortgages in Baltimore has declined but still exceeds the national level. As of February 2015, the Baltimore MSA placed 83rd out of 381 metropolitan areas ranked by share of mortgages at risk of foreclosure (90 or more days delinquent or in the foreclosure process) according to Black Knight Financial Services, Inc. From 2000 through 2004, the share of mortgages at risk of foreclosure in the Baltimore MSA was above the corresponding national share, but from 2005 through the middle of 2011, the share of distressed mortgages in Baltimore fell below the national rate, according to CoreLogic data. In 2007 and 2008, when the foreclosure crisis began and single-family foreclosures were largely driven by unaffordable non-traditional loan products, the increase in mortgages at risk of foreclosure in the Baltimore MSA rose at a slightly slower pace than nationally. Specifically, from the beginning of 2007 to the end of 2008, the share of distressed mortgages in Baltimore increased 2.7 percentage points (from 1.0 to 3.7 percent), compared with a national increase of 2.9 percentage points (from 1.6 to 4.5 percent). Beginning in 2009, foreclosures were increasingly driven by loss of income, unemployment, and strategic defaults as the economy worsened, according to research by the Federal Reserve Bank of Chicago. A sharp spike upward in the share of distressed mortgages occurred in 2009 for both the Baltimore MSA and the nation. By early 2010, mortgages at risk of foreclosure reached a peak of 8.0 percent nationally, and have since fallen to 3.6 percent. The share of distressed mortgages in the Baltimore MSA continued to increase for another 3 years, peaking at 7.9 percent in the beginning of 2013; the share has since fallen to 5.0 percent as of January 2015. Contributing to the later peak in the share of mortgages in the foreclosure pipeline in Baltimore was the passage of state legislation in mid-2010 that allowed for foreclosure mediation in an effort to prevent foreclosures. The time it takes to complete a foreclosure in the State of Maryland is still well below the national average, however. As of the first quarter of 2015, the average time to complete a foreclosure in the State of Maryland was 493 days compared with a national average of 620 days. The current decline in mortgages at risk of foreclosure in Baltimore is similar to the national trend. Over the last year, the number of distressed mortgages decreased by 26 percent—from 20,150 to 14,850—compared with a national decline of 25 percent over the same period.

RealtyTrac data show the rate of foreclosure completions in Baltimore has been almost half the national rate since April 2009. From April 2009 through March 2015, the number of foreclosure completions as a percentage of all housing units was 1.7 percent in Baltimore, nearly one-half the 3.1-percent rate for the nation. Since reaching a low point at the end of 2011, foreclosure completions have become more volatile. In the first quarter of 2015, for example, foreclosure completions were down 30 percent from the previous quarter but up 72 percent from the previous year. With rising home prices and low inventories of homes for sale, lenders have been resolving defaults more quickly. In addition, foreclosure activity has been increasing in states such as Maryland, where a slower foreclosure process led to a backlog that is beginning to clear.

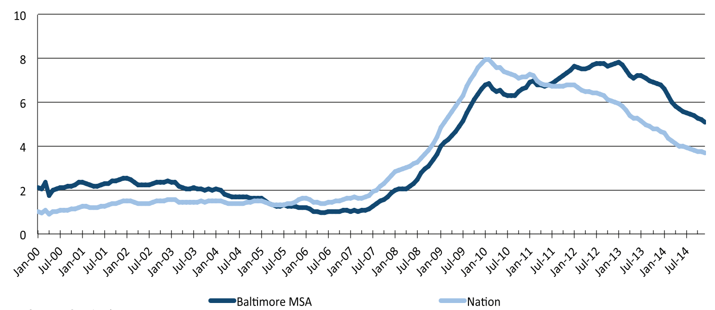
Foreclosure Completion Rates in the Baltimore MSA

Area	First Quarter 2015		Since April 1, 2009	
	Foreclosure Completions	Foreclosure Rate	Foreclosure Completions	Foreclosure Rate
Baltimore MSA	1,320	0.12%	19,250	1.7%
Nation	82,100	0.06%	4,104,700	3.1%

Notes: Foreclosure rates as percent of all housing units. Data through March 2015 for foreclosures since April 2009.
Sources: Realty Trac and Census Bureau.

The Share of Distressed Mortgages in Baltimore Has Declined Although It Remains Above the National Rate

Mortgages 90+ Days Delinquent or in Foreclosure (percent of all active mortgages)



Source: CoreLogic

The efforts of numerous state and local entities and financial institutions in partnership with the federal government have helped contain the rate of foreclosures. In April 2008, Governor Martin O'Malley signed the Foreclosure Law Process Reform Bill (Senate Bill 216/ House Bill 365), which provides protections for homeowners in the foreclosure process, including more time and notice before and after a foreclosure action is filed, more rights during the process, and more time to assert those rights should the lender fail to comply with the law. In May 2010, Maryland passed an additional foreclosure prevention law (House Bill 472), which allows a borrower to file a request for foreclosure mediation in which the parties involved meet with an impartial individual in an effort to reach an agreement on a loan modification or other form of loss mitigation. The need for recovery efforts continues. As of the fourth quarter of 2014, 13.2 percent of mortgages in the Baltimore MSA remain underwater, up slightly from 13.0 percent a year earlier, according to CoreLogic. This compares to a 10.8 percent share of underwater borrowers (those who owe more on their mortgage than the value of their home) at the national level.

The Administration's Efforts To Stabilize the Baltimore MSA Housing Market:

The Administration's mortgage and neighborhood assistance programs—the Home Affordable Modification Program (HAMP, which is part of the broader Making Home Affordable program), the Federal Housing Administration (FHA) mortgage assistance programs, and the Neighborhood Stabilization Program (NSP)—combined with assistance from the HOPE Now Alliance of mortgage servicers and the National Mortgage Servicing Settlement have helped stabilize the Baltimore MSA housing market.

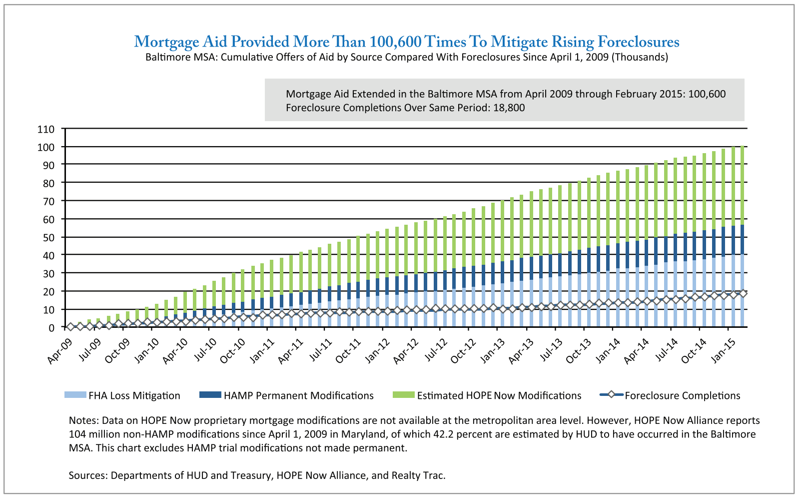
From the launch of the Administration's assistance programs in April 2009 through the end of February 2015, more than 100,600 homeowners have received mortgage assistance in the Baltimore metropolitan area. More than 56,700 interventions were completed through the HAMP and FHA loss mitigation and early delinquency intervention programs. An estimated additional 43,900 proprietary mortgage modifications have been made through HOPE Now Alliance servicers. While some homeowners may have received help from more than one program, the number of times assistance has been provided in the Baltimore metropolitan area is more than five times the number of foreclosures completed during this period (18,800).

Under the landmark National Mortgage Servicing Settlement signed in February 2012, more than 17,366 Maryland homeowners have benefited from over $1 billion in refinancing, short sales and completed or trial loan modifications, including principal reduction on first and second lien mortgages provided as of June 30, 2013. Nationwide, the settlement has provided more than $50 billion in consumer relief benefits to more than 631,000 families. That is in addition to the $2.5 billion in payments to participating states and $1.5 billion in direct payments to borrowers who were improperly foreclosed upon between 2008 and 2011.

Given over three rounds, the **Neighborhood Stabilization Program** has invested $7 billion nationwide to help localities work with non-profits and community development corporations to turn tens of thousands of abandoned and foreclosed homes that lower property values into homeownership opportunities and the affordable rental housing that communities need.

Baltimore MSA Housing Units to Date Benefitting From NSP by Type of Activity	
Construction or Rehabilitation	237
Homeownership Assistance to Low- and Moderate-Income	37
Total Housing Units	**274**
Additional Projected Housing Units	**177**

Notes: These housing units are the result of direct NSP grants to recipients in the Baltimore MSA. Data on units resulting from sub-grants to the Baltimore MSA from the State of Maryland are not available.



NSP1 funds were granted to all states and selected local governments on a formula basis under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008; NSP2 funds authorized under the American Recovery and Reinvestment Act (the Recovery Act) of 2009 provided grants to states, local governments, nonprofits and a consortium of nonprofit entities on a competitive basis; and NSP3 funds authorized under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 provided neighborhood stabilization grants to all states and select governments on a formula basis.

Overall, a total of $32.8 million in NSP funds has been awarded to three grantees in the Baltimore MSA: the **City of Baltimore**, **Baltimore County**, **and the non-profit**, **Healthy Neighborhoods Inc.** In addition, a total of $31.7 million in NSP funding was awarded to the **State of Maryland**, of which $9.6 million has been reallocated to the Baltimore MSA. Approximately 274 households have already benefited from direct NSP grants to recipients in the Baltimore MSA, and activities funded by the program are expected to provide assistance to an additional 177 owner-occupied and renter households. Data on households benefiting from NSP funds reallocated to the Baltimore metro area from the State of Maryland are currently not available.