



U.S. Homeownership Falls in Longest Slide Since 1981 (Update3)

By Bob Willis

Oct. 26 (Bloomberg) -- Homeownership in the U.S. dropped for a fourth consecutive quarter, the longest decline since at least 1981, suggesting more Americans will miss their best chance of building wealth.

The proportion of households that own their residences fell to 68.1 percent in the July-September period from 68.3 percent in the prior three months, according to a report today from the Census Bureau in Washington, whose comparable records go back to 1981. The rate has been declining from a peak in 2004, which culminated a decade of gains fueled by easier lending standards and rising home purchases by immigrants and younger households.

"Owning a home in this country has been a principal source of wealth creation for low- and moderate-income people," said Nicolas Retsinas, director of Harvard University's Joint Center for Housing Studies in Cambridge, Massachusetts. "In the absence of home equity, families will inevitably spend less."

Homeowners accumulate wealth faster than renters, with median net wealth for owners at \$184,400 in 2004, compared with only \$4,000 for renters, according to Federal Reserve figures.

The ownership rate reached a record 69.3 percent of households in 2004, up from 64 percent a decade earlier. With home prices soaring, net household wealth nearly doubled to \$51.8 trillion at the end of 2005 from \$27.6 trillion in 1995, with real-estate accounting for 47 percent of the change, according to Federal Reserve data.

New Mortgage Products

A September study by the Fed Bank of Atlanta found that as much as 70 percent of the increase in the aggregate homeownership rate over the decade was due to the introduction of new mortgage products, including second mortgages. Demographics, including the rapidly growing immigrant population, accounted for up to 31 percent of the increase, said the study.

Now, declining ownership rates mean fewer Americans will be able to tap housing equity to fund education, vacations and other spending. In the last year, the proportion of American households that own their homes dropped by 0.8 percentage point, the biggest year-over-year decline since 1981-82.

The U.S. entered a recession in July 1981 that lasted until November 1982, according to the National Bureau of Economic Research, which tracks business cycles. A Bloomberg/Los Angeles Times survey this week found almost two-thirds of Americans say a recession is likely in the next year.

Lower ownership rates also signal potential further declines in new-home sales that may extend the drag on growth from falling construction, said Jan Hatzius, chief economist at Goldman Sachs Group Inc. in New York.

Vacant Homes at Record

The Census Bureau report also found that a record 17.9 million U.S. homes stood empty in the third quarter as lenders took possession of a growing number of properties in foreclosure.

The figure is a 7.8 percent gain from a year ago, when 16.6 million properties were vacant, the Census Bureau said. About 2.07 million empty homes were for sale, compared with 1.94 million a year earlier, the report said.

Slowing residential construction has detracted from growth in gross domestic product for the last six quarters through June, shaving as much as 1.3 percentage point off growth in the third quarter of 2006, when the overall

economy grew at just a 1.1 percent pace. Most economists forecast an extended construction drag on growth after credit tightened further in August amid subprime-market turmoil.

``If homeownership declines significantly, the implications for new-home sales could be dramatic," said Hatzius. With further weakness in sales, ``the drag from new-home building on GDP growth will last longer than most people have in their forecasts, perhaps, if things go badly, into 2009."

Housing Starts

Housing starts, which track work begun on new homes, fell 48 percent to a 1.19 million annual pace in September from a three-decade peak of 2.29 million in January 2006. Sales of new homes declined 45 percent to an annual pace of 770,000 units in September from a peak of 1.389 million in July 2005.

With inventories of unsold homes piling up near record levels, housing prices will have to fall further, economists say.

Twenty-eight percent of all homeowners surveyed this month felt their property had lost value, surpassing the peak of 24 percent reached during the last real-estate slump in 1992, according to a Reuters/University of Michigan report today.

Home prices in 20 U.S. metropolitan areas dropped 3.9 percent in July from a year earlier, the biggest such decline since record-keeping began in 2001, according to the S&P/Case- Shiller home-price index.

Goldman Sachs is forecasting a 15 percent decline in home prices from the peak to trough, Hatzius said.

Less Wealthy

Hatzius and other economists argue that declining home prices leave Americans feeling less wealthy and less likely to spend on big-ticket items. Economists surveyed by Bloomberg forecast consumer spending growth to slow to a 2.3 percent pace in 2008 from this year's projected 2.9 percent pace.

``In periods of easy credit, it was easy to take a second mortgage out and use the money to finance discretionary spending," said Michelle Meyer, an economist at Lehman Brothers Holdings Inc. in New York.

Second mortgages, along with interest-only, payment-option and other unconventional mortgage products, have largely dried up this year as subprime defaults mounted and lenders such as American Home Mortgage Investment Corp. closed their doors. That makes it harder for people to refinance adjustable-rate loans before they reset at higher rates.

Mortgage Rates Resetting

``So many mortgages with ARMS are resetting and most people can't make their payments," said Steve Hawkins, a real-estate agent at Re/Max Inc. in Alexandria, Virginia. ``And with the new criteria, they can't get loans" to refinance their mortgages, he said.

The volume of mortgages issued this year will fall to the lowest since 2000, the Mortgage Bankers Association forecast on Oct. 17. Foreclosures doubled in September from a year earlier, RealtyTrac Inc. said Oct. 11.

Out of 297 townhouses in Springfield, Virginia, for sale last week, almost 80 were in the process of foreclosure or offered at a price lower than the mortgage balance, so-called short sales, said Hawkins.

Two years ago there would have been about 50 such units offered in the same Washington suburb, with none in foreclosure, he said.

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