

HOUSING MARKET PERSPECTIVES

On the Level with Bill Emmons



If Housing Markets Are Recovering, Why Is the Homeownership Rate Still Falling?



Bill Emmons is an assistant vice president and economist at the Federal Reserve Bank of St. Louis and the senior economic adviser for the Bank's Center for Household Financial Stability.

According to many metrics, housing market conditions continued to improve in 2015. For example, nationwide statistics show that:

- house prices increased faster than inflation for the fourth consecutive year;
- home sales increased 7 percent in 2015, reaching the highest level since 2007;
- new-home construction rose 11 percent in 2015, likewise the best since 2007;
- mortgage balances increased for the first time since 2008; and
- mortgage delinquency declined for the sixth straight year, returning to the 2007 level.

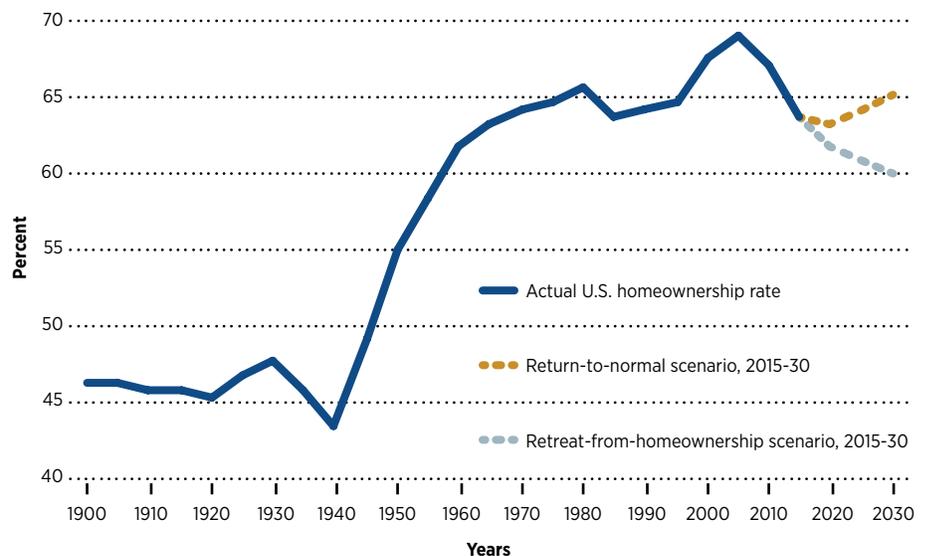
Yet one important gauge of housing conditions continued to fall in 2015—the homeownership rate.

After peaking in 2004 at 69 percent, the national homeownership rate declined in 2015 to 63.7 percent (see Figure 1).

This marks the 11th consecutive year of decline and brings the homeownership rate back to the level it first reached in 1968.

FIGURE 1

Homeownership Rate for the United States



SOURCE: U.S. Bureau of the Census and the author's own projections

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One explanation focuses on the sharp increase in homeownership between 1994 and 2004. Perhaps this period represented an unsustainable shift of many financially weaker families out of rental housing into homeownership, which subsequently reversed with the bursting of the housing bubble and the onset of the Great Recession.

Prior to the late 1990s, the homeownership rate had fluctuated for three decades in a narrow band between 63 and 66 percent. This still might be the range to expect in the future.

Evidence supporting the return-to-normal hypothesis includes greater-than-average declines since 2004 in the homeownership rates of younger,

less-educated and nonwhite families—precisely the financially weaker groups that moved into homeownership most rapidly during the housing boom.

Another possible explanation of the ongoing retreat from homeownership is that owning a home isn't as attractive or feasible as it was for many people during recent decades.

Virtually all homeowners experienced large fluctuations in the value of their housing investments in recent years, while millions lost their entire investments due to foreclosure. In addition, mortgage borrowing today is more difficult and

expensive in terms of spreads and fees for many potential homeowners. Finally, the idea of being “tied down” by a house and all its obligations may not be as attractive to younger people today as it was to their parents and previous generations.

Under this retreat-from-homeownership interpretation of recent experience, the homeownership rate could decline for some time to come—perhaps even to 60 percent or below. After all, homeownership rates in the low- to mid-60 percent range were unprecedented before post-World War II political and social

changes turned the U.S. into a majority homeownership society.

It's too soon to judge whether a long 20-year cycle is nearing its end (the return-to-normal scenario) or we are in the midst of a secular decline that could drive the homeownership rate even lower (the retreat-from-homeownership scenario). Perhaps there are elements of both explanations at work. In any case, it appears unlikely that the U.S. homeownership rate will return to its historic peak of 69 percent anytime soon. ■

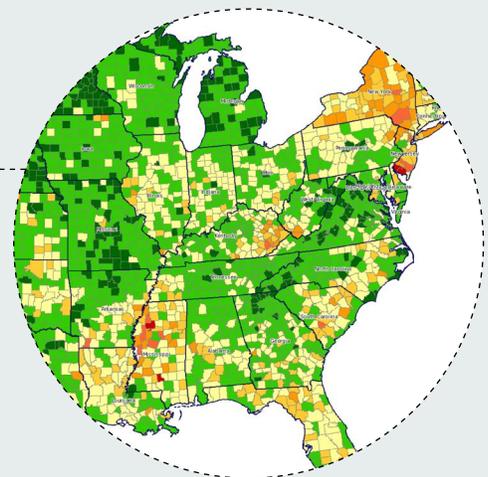
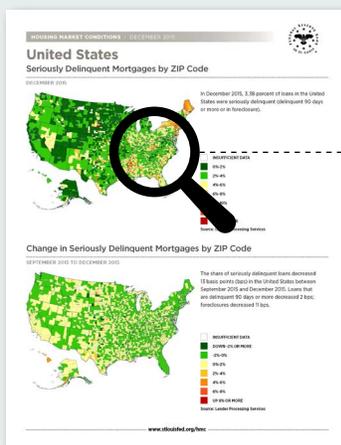
The St. Louis Fed's Housing Market Conditions Report



Housing Market Perspectives is published by the Community Development group at the Federal Reserve Bank of St. Louis as part of its quarterly Housing Market Conditions report, which provides an overview of housing market conditions in the U.S. and for the seven states that comprise the Federal Reserve's Eighth District and the Metropolitan Statistical Areas (MSA) of Little Rock, Louisville, Memphis and St. Louis. For more information, visit: stlouisfed.org/hmc

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