



Pursuing The American Dream, By Renting

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The start of spring usually brings a surge in existing-home sales and housing starts.

But this year, warming temperatures may not be enough to pull the real estate market out of a deep freeze. New homes sales plunged 16.9 percent last month, while the median price slid nearly 14 percent to \$202,100, the lowest level since December 2003, according to the Commerce Department.

And a Census Bureau report showed housing starts plunged more than 22 percent in February the second worst reading since World War II.

Rather than buy homes, growing numbers of Americans are renting apartments and houses. The Census Bureau says the national rental vacancy rate for the fourth quarter of 2010 was 9.4 percent, a significant improvement over the 10.7 percent rate in 2009. In fact, landlords haven't seen rental vacancy rates this low since the winter of 2003.

With vacancies down and rents rising, the values of apartment buildings are rising, too, up 16 percent in 2010, according to brokerage firm Marcus & Millichap.

This shift toward renting is reflected in the Census Bureau's home ownership statistics, as well. The ownership rate jumped up to a record 69.2 percent by 2004. After the housing crisis began in 2007, home ownership rates started dropping. The rate now is 66.5 percent the lowest level since 1998.

Foreclosures Boost Rentals

The move away from home ownership is tied primarily to the foreclosure crisis. Over the past five years, millions of people have lost homes in foreclosures, and

now have bad credit ratings. Because they can't meet the tighter lending standards for new mortgages, they won't be able to buy houses for years if ever.

In addition, the weak job market and slow wage growth are making it harder for Americans to come up with down payments or qualify for loans.

Bob Nielsen, chairman of the National Association of Home Builders, said in a statement that the new home market is being pulled down by "extremely tight" credit. As a result, the market psychology has shifted to "a very cautious stance."

That caution reflects not only current economic conditions, but also the hard experiences homeowners have had over the past five years. Nationally, home prices are down by about a third since their peak in mid-2006, according to the S&P/Case-Shiller U.S. National Home Price Index. Economists estimate that Americans have lost more than \$6 trillion in collective housing wealth over the past five years.

Renting May Help The Economy

As the housing market has cooled, many jobs have been lost. Real estate agents, brick layers, mortgage brokers, landscapers and so many others have lost jobs. But some economists argue the economy will do better if even more people become renters.

Here's the thinking: Owning a large home in the suburbs was a reasonable proposition in the past because energy was cheap. In the 1990s, people could afford to air condition lots of rooms with high ceilings and fill their gasoline tanks for long commutes. Fifteen years ago, gas cost about \$1.20 a gallon. Today, the price averages three times that.

With energy prices rising, the total cost of maintaining the big-house lifestyle is going up, too. Instead of buying gas for long commutes, many workers could cut costs by renting an apartment closer to their workplaces. The savings would allow them to steer more of their paychecks into retirement accounts. Those long-term investments may rise much more than the value of residential real estate.

Mobility Matters

Renting also would improve worker mobility. Places with high rates of home ownership also tend to have high jobless rates. Workers in, say, Detroit or northeastern Ohio, are likely to own homes, but may not be able to sell them to pursue new job opportunities in other parts of the country.

And that's achieving the American Dream, too moving up the ladder to boost income. "Renting improves mobility," said **Bernard Baumohl**, chief economist with the Economic Outlook Group. If you need a job, "why buy a home and

commit yourself to one place?"

But he added that for many families, "the lure of owning a home will remain" no matter what the job-hopping advantages of renting. "If you can meet the down payment requirement and have a good credit score, then this would be a good opportunity to buy" because both interest rates and home prices are low, he said.
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