Homeownership falls to lowest level since 1998

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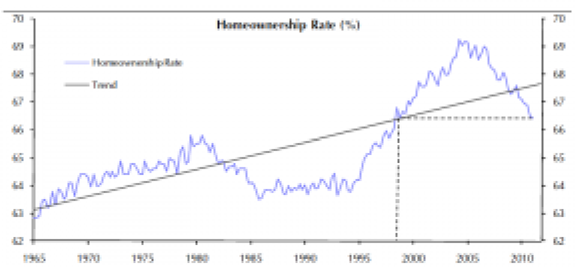
The homeownership rate dropped to 66.4% in the first quarter, the lowest level since 1998, according to the **Census Bureau**.

The rate is down from 67.1% one year ago, and a single basis point dip from the previous quarter. But it has not been this low since the fourth quarter of 1998.

Paul Dales, senior economist at **Capital Economics**, said the decline is "yet more evidence that Americans are now less able and less willing to buy a home." Subsequently, he expects increased demand for rental accommodation will boost returns in the residential rental market.

Dales also said "the housing crash has more than reversed the increase seen during the boom." (see below chart)



The Census Bureau estimated a total housing inventory of 131,009 units across the country in the quarter. The homeowner vacancy rate on these properties stayed level at 2.6%, the same as a year earlier. Vacancy rates hit a high in the first quarter of 2009 at 2.9%.

Vacancies were more pronounced in the city at a rate of 3.3%, almost a full percentage more point than suburbs, which had a 2.4% vacancy rate during the first three months of 2011.

Homeownership varied across the U.S., peaking in the Midwest at 70.4% with a low in the West at 60.9%.

The homeownership rate out West dropped below 61% for the first time since the fourth quarter of 1999. It peaked in the third quarter of 2006 at 65.3%, according to the Census data.

Homeownership among whites was 74.1%, the lowest level in about nine years, and the rate among blacks was 44.8%, which is the lowest in about 13 years. Homeownership levels for Hispanics stayed flat with the previous quarter at 46.8%.

While the homeownership rate across the country continues downward after the housing crash, a recent survey from **Pew Research** showed 81% of adults still believe buying a home is the best long-term investment a person can make, down only 3 percentage points from 1991.

Dales said one "inevitable consequence of low demand and high supply is lower prices," and Capital Economics expects home prices will fall by at least 5% this year.

The good news, according to Dales, is that the flipside of a fall in the demand to buy has been an increase in the demand for rented accommodation. The analytics firm says the rental vacancy rate nudged up from 9.4% in the fourth quarter to 9.7%. It remained below its long-run trend of 10%.

Demand for multifamily properties, those that accommodate rentals, is on the rise. The **Mortgage Bankers Association** reports this asset class received the largest amount of funding at $48.9 billion in fourth quarter 2010. The MBA estimated this figure is up 170% over 2009.

But there is a down side to this as well. The **Harvard University Joint Center for Housing Studies** released a report Tuesday, analyzing conditions in the housing market from 1999 to 2010. The study found the price to rent a home is trending inversely to renters' annual income, just one of many factors hindering growth in the rental space.

Jacob Gaffney contributed to this report.

by JON PRIOR