

As home prices sink, home ownership heads to new lows

By Diana Olick, CNBC.com

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Home prices across the nation are right back where they were at the beginning of 2003. All that was gained is largely now lost, and the effect on home ownership could continue for decades.



By Justin Sullivan, Getty Images

A "price reduced" sign by a home in San Rafael, Calif.

"Consumer attitudes have gotten a lot more negative about long-term commitment," said Standard and Poors' David Blitzer, after reporting home prices through September had fallen a deeper-than-expected 3.9%, compared with the third quarter of 2010. "They dropped to new lows. This takes them below the point we saw in 2009, where briefly we all thought this thing was about to turn around." And that's the problem.

Every time we think things are turning around in the housing market, we get hit with some new problem, like last year's so-called "robo-signing" foreclosure paperwork scandal, which managed to stall the cleansing of distress in the market for over a year. Now that foreclosures are ramping up again, prices are coming down again.

All this could push home ownership down to levels not seen at least since before the Census began tracking this data in 1963. Home ownership soared to 70% in 2005, but it could fall to 62% by 2015, according to the number crunchers at [John Burns Real Estate Consulting](#). They suggest that the effect of foreclosures drops home ownership 5.6%, and cyclical trends, like poor consumer confidence, tightening mortgage credit and the weak economy drop it 3%. Positive demographic trends would only offset that by 0.7%.

Census calculates the home ownership rate by dividing the number of owner-occupied housing units by the number of occupied housing units or households.

"People's memories take a while to fade," says John Burns. "It (also) takes a while to rebuild your balance sheet after a recession, and that's what many people need to do before they buy homes again.

Homeowners need to build back up to have a down payment for their next house, and renters will need to save more than before to become homeowners."

Burns believes home ownership will return by 2025 to around 67%, as previously foreclosed borrowers return to the housing market, cyclical trends improve and positive demographics start to carry more weight.

One thing Burns doesn't mention, though, is negative equity, or borrowers who owe more on their mortgages than their homes are worth.

"It's not just negative equity that we often focus on, but it's also insufficient equity. All the people who have those primary loans that are somewhere between 80% and 100% LTV (loan-to-value) also basically don't have don't have access to the credit markets," notes Mark Flemming of CoreLogic, which last week reported negative equity at 22.1% of all homes with a mortgage at the end of the third quarter.

As home prices refuse to stabilize and in fact continue to fall, negative equity will only increase. The vast majority of the 10-plus million people who are underwater are still paying their mortgages, but they are deeply underwater, 30% and higher. That will take a long time to correct, and will stagnate much of the market for years to come, as these owners are unable to sell.

Which begs the question: Is a 62% home ownership rate so bad? It's still far higher than in most European countries.

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