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LOPSIDED HOUSING REBOUND LEAVES MILLIONS OF PEOPLE OUT IN THE COLD

Homeownership rate continues to decline as credit issues, student loans and high prices lead more to rent

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The housing recovery that began in 2012 has lifted the overall market but left behind a broad swath of the middle class, threatening to create a generation of permanent renters and sowing economic anxiety and frustration for millions of Americans.

Home prices rose in 83% of the nation's 178 major real-estate markets in the second quarter, according to figures released Wednesday by the National Association of Realtors. Overall prices are now just 2% below the peak reached in July 2006, according to S&P CoreLogic Case-Shiller Indices.

But most of the price gains, economists said, stem from a lack of fresh supply rather than a surge of buyers. The pace of new home construction remains at levels typically associated with recessions, while the homeownership rate in the second quarter was at its lowest point since the Census Bureau began tracking quarterly data in 1965 and the share of first-time home purchases remains mired near three-decade lows.

The lopsided recovery has shut out millions of aspiring homeowners who have been forced to rent because of damaged credit, swelling student loans, tough credit standards and a dearth of affordable homes, economists said.

In all, some 200,000 to 300,000 fewer U.S. households are purchasing a new home each year than would during normal market conditions, estimates Ken Rosen, chairman of the Fisher Center of Real Estate and Urban Economics at the University of California at Berkeley.

"I don't think we are in a normal housing market," said Lawrence Yun, chief economist at the National Association of Realtors. "The losers are clearly the rising rental population that isn't able to participate in this housing equity appreciation. They are missing out on [a big] source of middle-class wealth."

A prospective home buyer looks out the window of a house near Boerne, Texas. An estimated 1 million new households were formed last year, but only 620,000 new housing units were built, according to the Urban Institute.

Anxiety about missed economic opportunities is a key driver of the anti-incumbent anger on both sides of the political spectrum that has shaken up the 2016 election season, helping fuel the insurgent presidential campaigns of Donald Trump and Bernie Sanders.

"You have these people who can't get housing, and it's turning into this rage," said Kevin Finkel, executive vice president at Philadelphia-based Resource Real Estate, which owns or manages 25,550 apartments around the U.S.

While economists expected the homeownership rate to begin edging up this year, the rate fell to a 51-year low of 62.9% in the second quarter from 63.4% in the same quarter last year.

The rate could fall to 58% or lower by 2050, according to a recent prediction by housing experts Arthur Acolin of the University of Southern California, Laurie Goodman of the Urban Institute and Susan Wachter of the Wharton School at the University of Pennsylvania.

Long-term declines could erase gains made by middle-class Americans since World War II. Owning a home provides protection against rising rents and has been a key component of retirement saving and wealth creation.

"The default savings mechanism for American households has been homeownership," Ms. Wachter said. "Today we have historic lows for young households in terms of ownership so they're not getting on this path."

That, in turn, can ripple throughout the economy. Homeowners often use home equity to pay for college tuition, vacations or home renovations, all of which help boost consumer spending. The mere knowledge that home values are rising can make consumers comfortable spending money other places, a process known as the wealth effect.

"We're seeing a divide between the wealth of homeowners and the wealth of renters," said Nela Richardson, chief economist at real-estate brokerage firm Redfin.

After peaking in July 2006, the Case-Shiller index plunged 27% over the next six years. Since then the recovery has been swift, particularly in markets with strong job growth and limited supply, creating problems for entry-level buyers in particular.

Across the country the recovery has been divided between strong West Coast markets and Texas, which have rebounded swiftly beyond their 2006 peaks, while prices from the Rust Belt to southern Florida may not return to those levels for decades.

Prices in the Boulder, Colo., metro area are 45% above their prior peak, while those in Dallas are 26% above their boom-time highs, according to data provider CoreLogic Inc. Meanwhile, prices in the Saginaw, Mich., area remain nearly 40% below their peak levels and those in Atlantic City are still 38% lower.

In Sacramento, prices have jumped 64% since the beginning of 2012, according to CoreLogic.

Sunny Kenner, a 40-year-old single mother who works for the county government and has rented for years, decided a few months ago she needed to buy before rising prices shut her out for good.

Ms. Kenner, who is looking for a two-bedroom house in the $250,000 range, has been trying for months but twice has been outbid by buyers with large cash reserves who bid $10,000 over the asking price. By the second day a house is on the market, she says, there are usually about half a dozen offers on it.

"The first time I didn't get one of the houses, of course, I cried," she said. "The second time I was just numb." She said she wishes she had enough money to buy when prices hit bottom a few years ago. "I feel like I missed the boat."

The main reason for falling homeownership, economists say: mortgage availability. Lenders chastened by the financial crisis have been fearful of making loans to borrowers with dings on their credit, student debt or credit-card bills, or younger buyers with shorter credit histories.

“I’m not sure that we’ll see some of those conditions change in any material way in the foreseeable future,” said Tim Mayopoulos, the president and chief executive officer of mortgage giant Fannie Mae, in an interview last week.

“Right now our mortgage finance system is still not working well for lower- and middle-income households and first-time buyers,” added Mr. Rosen.

A dearth of home construction, especially at the lower end, is taking a toll. Nationally, the inventory of homes for sale has dropped more than 37% since 2011, according to Zillow, a real estate information firm. Some of that reflects the clearing away of distressed inventory, but economists said the pendulum has swung toward a housing shortage.

An estimated 1 million new households were formed last year, but only 620,000 new housing units were built, according to the Urban Institute. An analysis of census data by the Urban Institute showed that all of the net new households formed between 2006 and 2014 were renters rather than owners.

In 2006 home builders produced 40% more single-family homes than the 30-year long-run average. Last year, by contrast, single-family home construction was still 30% below that mark, according to Census Bureau data.

“We went so many years without building there are in many places in the country a shortage of housing,” said Richard Green, the Lusk Chair in Real Estate at the University of Southern California. “I think that overshadows everything else in terms of normalcy.”

In the early years of the recovery only top earners could afford to buy homes, as new buyers struggled with joblessness or tarnished credit histories, so builders focused almost exclusively on the high-end.

“The entry-level buyer, up until recently, has not been that involved in buying houses,” said Dale Francescon, co-chief executive of Century Communities, a publicly traded builder that operates in four states. “That’s historically where a significant amount of the volume has come from.”

Even as first-time buyers have started returning to the market, many builders have been slow to respond. Building lower-priced homes means finding cheaper land, and that tends to be farther away from job centers on the suburban fringes.

Those areas were the hardest hit during the housing bust, and many investors have been hesitant to encourage builders to return. As a result, builders have tended to focus on ever-dwindling and increasingly expensive land in core areas, pushing up the prices.

Tom Farrell, director of business development for Landmark Capital Advisors, which counsels investors on real-estate projects, said risk appetite is low, particularly outside core markets.

“We’re often saying ’You all want to be in the same spot, and you’re tripping over each other,” he said. “It’s just difficult to get people out to those secondary markets.”

—Chris Kirkham contributed to this article.