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U.S. HOMEOWNERSHIP RATE FALLS TO FIVE-DECADE LOW

But household formation climbs as more Americans look to rent

By Jeffrey Sparshott
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The U.S. homeownership rate fell to the lowest level in more than 50 years in the second quarter of 2016, a reflection of the lingering effects of the housing bust, financial hurdles to buying and shifting demographics across the country.

But the bigger picture also suggests more Americans are gaining the confidence to strike out on their own, albeit as renters rather than buyers.

The homeownership rate, the proportion of households that are owner-occupied, fell to 62.9%, half a percentage point lower than the second quarter of 2015 and 0.6 percentage point lower than the first quarter 2016, the Census Bureau said on Thursday. That was the lowest figure since 1965.

There are many ways to interpret the numbers. Part of the story is the catastrophic housing market collapse, which was especially severe for Generation X—those born from 1965 to 1984.

Younger households may struggle to save amid student debt, growing rents, rising home prices and limited inventories of starter homes. Indeed, the homeownership rate for 18- to 35-year-olds slipped to 34.1%, the lowest level in records dating to 1994.

At 77.9%, the homeownership rate was highest for those 65 years and over.

But the broader picture suggests a degree of economic strength: Renters are spurring a steady increase in overall household formation. Renter-occupied housing units jumped by 967,000 from the same period a year earlier. Overall, household formation has been fairly steady since the early days of the expansion.

A rising number of households suggests more people are optimistic enough to strike out on their own and helps further spur growth as they buy furniture, start families and move up the economic ladder.

Indeed, moving into a rental unit has been entirely responsible for rising household formation since the recession began.

“Household formation numbers suggest that if the decline [in ownership] is real, it is more likely due to a large increase in the number of renter households than any real decline in the number of homeowner households,” said Ralph McLaughlin, chief economist at real estate website Trulia.

Down the road, renters will likely look to become buyers, spurring a housing market that already appears constrained by rising prices and limited inventories.

Corrections & Amplifications

The chart "Space for Rent" used an incorrect scale for household formation. It now correctly shows figures in millions, not thousands.