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# SLUGGISH HOUSING RECOVERY TOOK $300 BILLION TOLL ON U.S. ECONOMY, DATA SHOW

*Homeownership rate remains below normal level*

By Laura Kusisto
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The decline in homeownership rates to near 50-year lows is partly to blame for the U.S. economy's sluggish recovery from the last recession, new data suggest.

If the home-building industry had returned to the long-term average level of construction, it would have added more than $300 billion to the economy last year, or a 1.8 percent boost to gross domestic product, according to a study expected to be released Monday by the Rosen Consulting Group, a real-estate consultant.

In 2016, total spending on housing declined to 15.6 percent of GDP, a broad measure of goods and services produced across the U.S., compared with a 60-year average of nearly 19 percent. The share of spending specifically linked to new-home construction and remodeling likewise declined to 3.6 percent of GDP, just over half its prerecession peak in 2005.

If lenders were to ease credit standards back to their early 2000s levels, that could jump-start home purchases and construction activity, said Ken Rosen, chairman of Rosen Consulting and chairman of the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley.

“If you want to get the economy going, housing is typically the flywheel,” he said.

Of course, lax lending standards was a primary culprit of the 2008 financial crisis, and Mr. Rosen isn't suggesting a return to that easy-money era. Still, housing-industry executives say the pendulum has swung too far in the other direction, to the detriment of middle-class families and economic growth.

Housing serves as an economic engine through home construction as well as ancillary activities such as appliance purchases, spending on home renovations and jobs for real-estate agents. Each new single-family housing unit built typically creates three jobs, according to the National Association of Home Builders.

The homeownership rate stood at 63.7 percent in the fourth quarter of 2016, according to the U.S. Census Bureau. That was down from a high of 69.2 percent during the housing boom and below the 65 percent economists say is a normal level.

Strict mortgage lending standards, younger households putting off marriage and children and a lack of inventory of homes for sale are combining to depress homeownership.

It is unlikely that easing credit alone would be enough to bring the share of households who own back up to historic norms. Even in hot markets where demand is strong despite tight credit standards, builders can't construct enough homes to meet demand because of labor shortages and regulatory barriers, said Robert Dietz, chief economist at the National Association of Home Builders.

"It's certainly the case that you would get more economic activity. You would get more activity, but there are limits on how fast you can grow in any given year," Mr. Dietz said.

Ed Brady, president of Bloomington, Ill.-based Brady Homes, said his company built 150 homes in 2006. Last year, it built 15.

Mr. Brady said part of the reason activity has fallen off is that he doesn't build in as many markets as he used to. Tight credit – both for builders and buyers – is another factor.

"I'm not suggesting that we go back to the maverick days, but I do think that there are a lot of people that could afford to repay their loans but are not buying because they're afraid to go in for the inquisition of trying to get a loan," he said.

Tighter mortgage lending has led to sharp declines in default rates and helped produce a market in which price growth is linked to economic prosperity.

But some experts argue default rates are too low. Under typical conditions, similar to those in the early 2000s, about 12 percent of mortgages are at risk of default, but in the third quarter of 2016, just 5.1 percent of mortgages were at risk of default – a level that indicates that lenders aren't making loans to thousands of people who pose little risk, according to the Urban Institute, a nonprofit think tank.

Mr. Rosen said many middle-class families have missed out on the appreciation that has occurred over the past five years because they haven't been eligible for mortgages.

"We're being paternalistic in our regulatory environment and it's forcing lower middle-class people…to rent," he said.