

Homeownership rates set to fall further on both sides of the Atlantic

Recently released data from the US show that homeownership rates declined further in the third quarter of the year. The latest numbers indicate that the owner occupation rate has slipped from a high of 69% to currently stand at 67%. In this short note, we look at the trend in homeownership over the past couple of decades in the US as well as in the UK and Spain and draw out some inferences on whether the shift in tenure evident in the data is likely to continue.

Across much of the industrial world, a combination of ageing baby boomers, increases in educational attainment, and the growth in income all combined to increase homeownership from the 1980's onwards. It is also worth recalling that the promotion of this form of tenure has been a key plank of housing policy in a large number of countries in recent years.

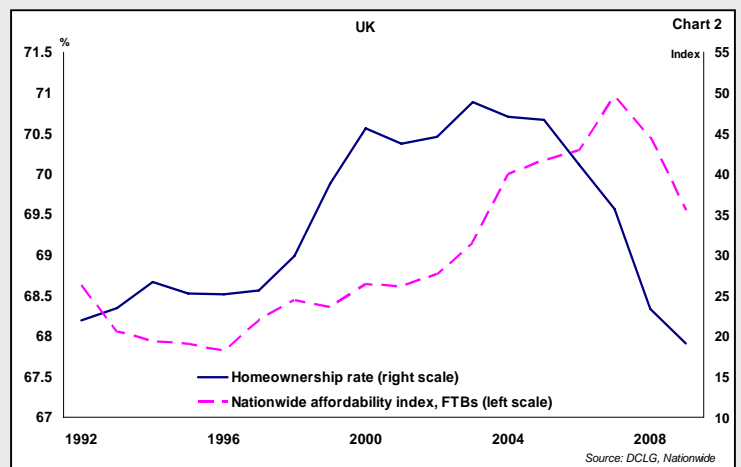
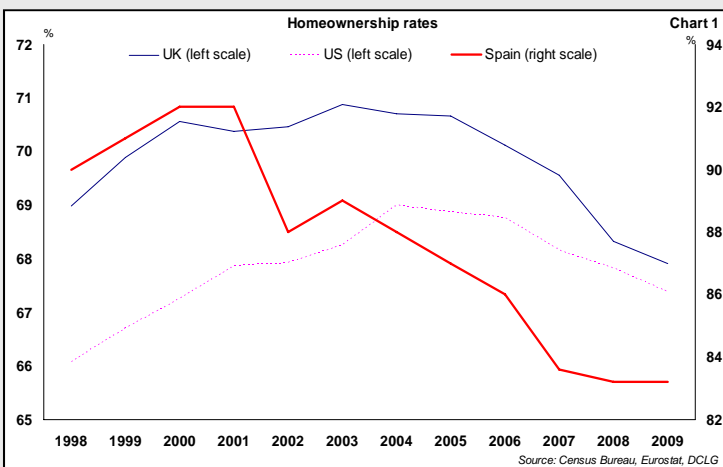
It has been advanced both directly through subsidies as well as by government agencies. Homeownership has been seen to bring a number of benefits (i) accumulation of wealth as home ownership is often regarded as a long term investment (ii) the dwelling itself – ownership dwellings are typically larger and of higher quality (Atterhog, 2005) and (iii) the non-tangible benefits many of which constitute positive externalities for society and local community. Notwithstanding this, homeownership rates vary considerably across countries due to a range of economic and cultural factors. Spain for example, currently has a homeownership rate of 82%, the UK 68% and the US 67% (chart 1).

Spain has seen the largest decline in homeownership in the past decade. After peaking at 92% in 2002, it has fallen 10 percentage points, and now stands at 82%. The falls in the other two countries examined in this short note have been rather more modest to date.

Significantly the rise in homeownership rates in all three countries was also accompanied by rising home prices (see charts on next page). New home prices in the US increased at their quickest pace in the same year that the homeownership rate hit a high watermark, in 2004. Meanwhile in Spain and the UK the picture was not too dissimilar.

The decline in homeownership rate from the earlier part of the decade was in part due to stretched affordability (chart 2). Conventional measures of value relating house prices to income and rent moved significantly higher increasing the attraction of alternative forms of tenure, mostly private lettings. This was in due course compounded by a dramatic tightening in credit conditions and a rise in unemployment as the recession set in.

In the fallout from the downturn in real estate, US house prices are still 29% below their pre-crisis peak (CaseShiller 20-city index), while in Spain they remain 13% (Ministry of Housing index) below their high. In the UK are 9% down on their peak according to the Land Registry.



As chart 1 demonstrates, all three countries saw homeownership rates rise dramatically and peak during the first half of the last decade rather than later, as one might have been expected, at the onset of the credit crunch. The US hit its high watermark in 2004, the UK in 2003 and Spain in 2002. Since then, all three have seen declining rates of homeownership, with all now at pre-2000 levels.

Our judgement is that the combination of tight lending constraints, which look set to persist, and a generally uncertain economic environment points to a further shift in tenure over the next few years, with owner occupier rates continuing to edge lower at the expense of private lettings.

Charts available to the media on request, call RICS Press office: 0207 695 1682

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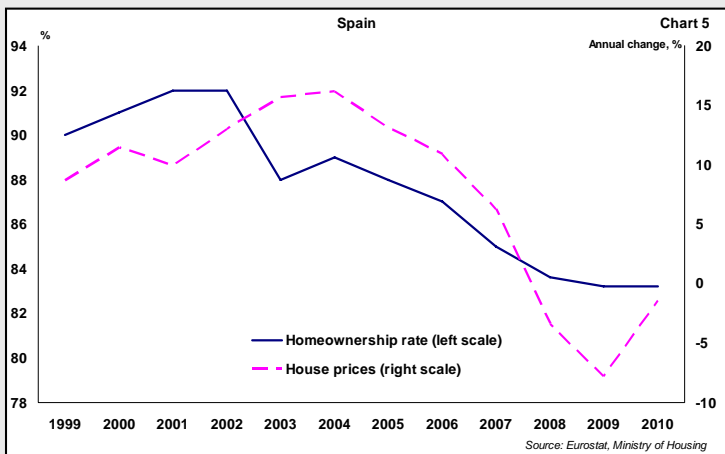
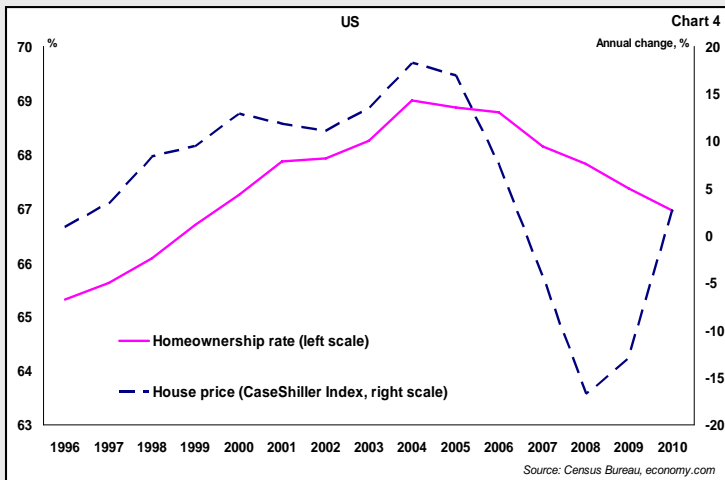
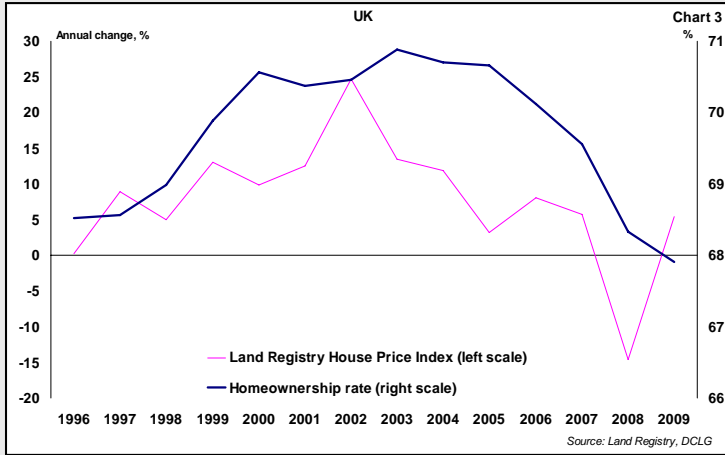


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House price growth and owner occupier rates:



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