Is Homeownership Still the American Dream?

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A conflicting picture is emerging in today’s real estate market. Home prices are booming, but homeownership has fallen to its lowest level since 1995. What’s going on here? If the real estate market is so strong and homes are selling faster and at higher prices than just one year ago, shouldn’t homeownership rates be on the rise?

Homeownership in the U.S. hit a nearly 18-year low in the second quarter of 2013, according to the Department of Commerce. Homeownership rates declined to 65.1 percent, the lowest level since 1995.

Conventional thinking would be that if the real estate market is strong, homeownership would be on the rise. We’ll have to wait another year to see if the current real estate market surge helps increase homeownership rates. But right now, several trends are contributing to the current state of the real estate market.

Investors are buying in bulk

Since about a year ago, hedge funds and groups of investors have been buying up real estate, especially in the West. These funds often buy up hundreds of homes at a time. Some of these properties are distressed homes, such as foreclosures being bought in bulk from a bank.

Real estate investors have always been in the market, but this time it seems different. Today’s investors see rising rental rates, coupled with depressed home values compared with just a few years ago. For them, this presents a great opportunity. So a hedge fund buys homes in bulk, renovates them quickly and then puts them on the rental market. The numbers work well for them, because today’s rising rental rates provide a good return on their investment.

More people are choosing to rent

Investors are operating on the assumption that there will be people to rent the homes they’re buying in bulk, and that assumption is accurate.

In the past few years, certainly since the recession, there appears to be an entirely new class of “forever renters.” They may be folks who got burned in the housing crisis, whose credit — and their faith in real estate — is shot. They were rudely awakened from the American Dream of homeownership, so now they prefer to rent. It’s less complicated and risky, and they don’t have to worry about getting into financial hardship again.

Alongside these renters are people who simply don’t want to be tied down to a mortgage or a home for 30 years. Potential buyers typically need to commit to a home for at least a few years to recoup their costs and not get stuck. Of course, there are markets where the return on investment happens even sooner, but you can’t time the real estate market. Instead, you should buy a home because you want to commit to an area, build equity and put down roots. Homeownership is also a psychological investment in yourself. It can be grounding and stabilizing.

Today’s Generation Y or Millennial buyers may not want to live in the same town for the next three years, let alone five. People aren’t staying in their jobs for 30 years, like homeowners of generations past. It’s common to do two years in one job and move on. Given the growth of the Internet and the ease of travel, taking a job across the country or even across the world is much easier today. Today’s professionals are working long hours and are open to doing whatever it takes to help their careers, including moving.

Sociologically, the world is changing

The divorce rate has risen. Single women in their 30s and married gay couples are more the “new normal.” Getting married out of high school or college, taking a job, building up your pension and purchasing a home in the suburbs with a
30-year fixed rate loan isn’t the standard it was a few decades ago. The world around us is changing, and those changes are having an impact on homeownership rates.

Homeownership may not be everyone’s American Dream today. And that’s OK. For many, renting may be a great alternative. Maybe the American Dream is evolving, or it means something different to everyone now. New dreams are coming to the surface in our always-on, always-connected world. Having the flexibility to take a job in Denver or Dubai matters to people.

The flexibility to accept a job transfer, take a long sabbatical, or just be open to any of these ideas is satisfying to most. If you rent, you can often just give 30 days notice and be on your way. Without being tied to a mortgage, you can come and go as you please.

The footloose-and-fancy-free mentality, thanks to the Internet, the lure of long-distance travel, the recent recession, and other factors, is having a major impact on homeownership. Many people, especially the Gen Y or Millennial potential home buyer, prefer to live their 20s and 30s being as flexible as possible. Once they reach their 40s, it may be the right time to settle down and buy a home.

Homeownership still offers many important rewards, of course, both financially (especially if you invest for the long term) and emotionally (there’s something very satisfying about owning your own home). Ultimately, though, homeownership is probably no longer the American Dream as it once was, but one of many American dreams.

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