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Housing Fades as a Means to Build Wealth, Analysts Say

Excerpts from an article that ran on August 23, 2010, By DAVID STREITFELD

Housing will eventually recover from its great swoon. But many real estate experts now believe that home ownership will never again yield rewards like those enjoyed in the second half of the 20th century, when houses not only provided shelter but also a plump nest egg.

The wealth generated by housing in those decades, particularly on the coasts, did more than assure the owners a comfortable retirement. It powered the economy, paying for the education of children and grandchildren, keeping the cruise ships and golf courses full and the restaurants humming.

More than likely, that era is gone for good.

“There is no iron law that real estate must appreciate,” said Stan Humphries, chief economist for the real estate site Zillow. “All those theories advanced during the boom about why housing is special — that more people are choosing to spend more on housing, that more people are moving to the coasts, that we were running out of usable land — didn’t hold up.”

Instead, Mr. Humphries and other economists say, housing values will only keep up with inflation. A home will return the money an owner puts in each month, but will not multiply the investment.

Dean Baker, co-director of the Center for Economic and Policy Research, estimates that it will take 20 years to recoup the $6 trillion of housing wealth that has been lost since 2005. After adjusting for inflation, values will never catch up.

“People shouldn’t look at a home as a way to make money because it won’t,” Mr. Baker said.

If the long term is grim, the short term is grimmer. Housing experts are bracing themselves for Tuesday, when the sales figures for July will be released. The data is expected to show a drop of as much as 20 percent from last year.

The supply of homes sitting on the market might rise to as much as 12 months, about twice the level of a healthy market. That would push down prices as all those sellers compete to secure a buyer, adding to a slide that has already chopped off as much as 30 percent in home values.

The notion of housing as an investment first began to blossom after World War II, when the nesting urges of returning soldiers created a construction boom. Demand was stoked as their bumper crop of children grew up and bought places of their own. The inflation of the 1970s, which increased the value of hard assets, and liberal tax policies both helped make housing a good bet. So did the long decline in mortgage rates from the early 1980s.

Despite all these tailwinds, prices rose modestly for much of the period. Real home prices increased 1.1 percent a year after inflation, according to Mr. Shiller's research.

By the late 1990s, however, the rate was 4 percent a year. Happy homeowners were taking about $100 billion a year out of their houses, which paid for a lot of good times.

"The experience we had from the late 1970s to the late 1990s was an aberration," said Barry Ritholtz of the equity research firm Fusion IQ. "People shouldn't be holding their breath waiting for it to happen again."

"It's entirely likely that markets like Arizona will not recover even in the 15- to 20-year time frame," said Mr. Humphries of Zillow. "The demand doesn't exist."

Owners in those foreclosure-plagued areas consider themselves lucky if they are still solvent. But that does not prevent the occasional regret that a life-changing sum of money was so briefly within their grasp.

Robert Austin, a Phoenix lawyer, paid $200,000 for his home in 2000. Five years later, his neighbors listed a similar home for $500,000.

Freedom beckoned. "I thought, when my daughter gets out of school, I can sell the house and buy a boat and sail around the world," said Mr. Austin, 56.

His home is now worth about what he paid for it. As for that cruise, "it may be a while," Mr. Austin said.