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A new generation of renters emerging

- ***When the housing bubble burst four years ago, 31.6 percent of households were renters. Now, it's at 33.6 percent and rising.***

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WASHINGTON — A growing number of Americans can't afford a home or don't want to own one, a trend that's spawning a generation of renters and a rise in apartment construction.

Many of the new renters are former owners who lost homes to foreclosure or bankruptcy. For others who could afford one, a home now feels too costly, too risky or unlikely to appreciate enough to make it a worthwhile investment.

The proportion of U.S. households that own homes is at its lowest point since 1998. When the housing bubble burst four years ago, 31.6 percent of households were renters. Now, it's at 33.6 percent and rising. Since the housing meltdown, nearly 3 million households have become renters. At least 3 million more are expected by 2015, according to census data analyzed by Harvard's Joint Center for Housing Studies and The Associated Press.

All told, nearly 38 million households are renters.

Among the signs of a rising rental market:

• The pace of apartment construction has surged 115 percent from its October 2009 low. It's still well below a healthy level. But permits for apartments, a gauge of future construction, hit a two-year peak in March. By contrast, permits for single-family home are on pace for their lowest annual level on records dating to 1960.

• The number of completed apartments averaged about 250,000 a year before the boom. They fell to 54,000 last year and will probably number around the same this year. But then the number will likely double to about 100,000 in 2012 and hit 250,000 by 2013 or 2014, according to the CoStar Group, a research firm. The lag is due to the time it takes for an apartment building to be completed: an average of 14 months.

• Demand is driving up rents. The median price of advertised rents rose 4.1 percent between the end of 2009 and the end of 2010, census data shows. Few expect the higher prices to stem the flood of renters, though. One reason: Younger adults don't value homeownership as earlier generations did and many prefer to rent, studies show.

• Rental housing is giving builders more work just as construction of single-family homes has dried up. Still, that economic lift won't make up for all the single-family houses not being built. Apartments account for only about one-fourth of homes. And renters are outspent roughly 2-to-1 by homeowners, who pay for items from lawn care to remodeling and help drive the economy.

Before the housing bust, mortgage rates were so low it was often cheaper to buy than rent. That was true a decade ago in more than half the 54 biggest metro areas, according to Moody's Analytics. Today, by contrast, it's cheaper to rent in about 72 percent of metro areas.

Consider Mason Hamilton, 26, an energy consultant who rents an apartment with his wife for $1,100 a month in Alexandria, Va., outside Washington. He'd like something bigger. But he says he doesn't plan to buy even though he could afford to.

“My parents always told me, ‘You need to buy a place; you need to buy property,'” he says. “But the housing market is insane.”

Many younger Americans see owning as risky. It hardly seems the best way to build wealth, especially when prices are falling.

“There's been this idea for years, a part of the American dream, that owning a home improves and strengthens communities,” said John McIlwain, a senior fellow at the nonprofit Urban Land Institute. “But what we've learned over the past few years is that many people simply are not ready to own a home.”

From the 1940s until 2007, homes appreciated an average of nearly 5 percent a year, adjusted for inflation. In the past four years, the median price of a single-family home has sunk 37 percent, by $57,500, to its lowest since 2002. Yet in some areas, owning is still too expensive for many.

“It's becoming so difficult for most Americans to afford a home, with larger down payments and tighter credit, that it is creating a renter's nation,” says Robert Shiller, a Yale economist and co-creator of the Case-Shiller home price index. “The home is no longer an investment; it's a burden.”

Homeownership bestows its own financial advantages, of course. Each loan payment builds equity. Loan interest and property taxes provide tax deductions. And in normal housing markets, home values rise over time.

But for now, renting is more attractive. Hamilton, the energy consultant, says his father, a 58-year-old teacher in Richmond, Va., still owes nearly as much on his mortgage as his house is worth.

“He's stuck in that house,” Hamilton says. “After telling me to buy for all of those years, he'd love to rent like me.”