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# The New Yorker: When owning isn't better

What was a savings plan is now pushing some into indentured servitude
THE FINANCIAL PAGE
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Americans may disagree about nearly everything, but few contest the idea that owning your home is a good thing. Paeans to homeownership are a commonplace for American politicians, and, since the nineteen-thirties, public policy has been designed to make home buying cheaper and easier. Homeownership, the argument goes, has tremendous social benefits, stabilizing neighborhoods and making people more willing to invest in their communities. And it has economic benefits, too, serving as a forced-savings program that allows people to leverage their incomes and build wealth. Homeownership "provides financial security for families," Mel Martinez, the former H.U.D. Secretary, has said, and it "generates economic strength that fuels the entire nation."

That never seemed more true than in the years from 1994 to 2005, when the percentage of Americans who own homes rose by almost ten per cent, and the amount of wealth tied up in property soared. But our veneration of homeowning has blinded us to the fact that, along with the benefits, it has some very real costs — costs that only get bigger as the ranks of homeowners swell. The housing boom undoubtedly helped the economy's growth rate and made lots of first-time home buyers happy. Unfortunately, it may also end up prolonging and deepening the current downturn.

In part, this is due to the nature of the boom, which was stoked by cheap credit and lax lending standards. Buying a home used to require a sizable down payment: in 1976, the average for a first-time buyer was eighteen per cent. By contrast, a National Association of Realtors study of first-time buyers between mid-2005 and mid-2006 found that almost half put down nothing at all, and that the median down payment was just two per cent. If you earn eighty thousand a year, no one will lend you four hundred thousand dollars to buy stocks, but plenty of people were willing to lend you that money to buy a house. As long as home prices were rising, all this leverage seemed like a good thing: it let people buy homes that they couldn't otherwise afford, and maximized their return on investment. But, with home prices sinking — in the final quarter of 2007, they were down almost 9 percent from the year before—the downside has become clear: as many as fifteen million homeowners now owe more on their mortgages than their homes are worth. Homeownership isn't building wealth for these people; it's locking them into indentured servitude.

The problem was exacerbated by an explosion in home-equity loans, fuelled by our faith that house prices can only rise. According to a recent study by the Federal Reserve, homeowners took out more than six hundred billion dollars in home-equity loans between 2004 and 2005 alone — ten times as much as they had a decade earlier — and are spending much of it on personal consumption. That destroys the forced-savings aspect of homeownership, since people are using up their home equity instead of saving it for the future. And it means that many homeowners have to devote more and more of their income to paying off home-equity debt, contributing to the current slowdown.

Even without lending and borrowing excesses, though, our high rate of homeownership would likely create problems as the economy slows. To recover from recession, economies need prices to fall until they reflect genuine supply and demand. With certain kinds of assets, like stocks, these adjustments take place quickly, sometimes viciously so. Buying and selling houses, though, is a far slower process. The good thing about this is that housing prices never suffer crashes on the scale that you sometimes see in the stock market. The bad thing is that it can take a long time for housing prices to reflect reality. Homeowners, as economists have shown, tend to remain unreasonably optimistic about the value of their homes, and they hate to drop their asking price. As a result, existing-home sales in the U.S. are now at a nine-year low.

Home ownership also impedes the economy's readjustment by tying people down. From a social point of view, it's beneficial that homeownership encourages commitment to a given town or city. But, from an economic point of view, it's good for people to be able to leave places where there's less work and move to places where there's more. Homeowners are much less likely to move than renters, especially during a downturn, when they aren't willing (or can't afford) to sell at market prices. As a result, they often stay in towns even after the jobs leave. That may be why a study of several major developed economies between 1960 and 1996, by the British economist Andrew Oswald, found a strong relationship between increases in homeownership and increases in the unemployment rate; 10 percent increase in homeownership correlated with a two-per-cent increase in unemployment. (In the U.S., it may be worth noting, the states that have the highest unemployment rates — states like Alabama, Michigan, Mississippi — are also among those with the highest home ownership rates.) And reluctance to move not only keeps unemployment high in struggling areas but makes it hard for businesses elsewhere to attract the workers they need to grow.

This doesn't mean that the U.S. should become a nation of renters—even if both New York City and Switzerland show that high rates of renting are compatible with great prosperity. With the bursting of the housing bubble, though, it's time not just to scrutinize the excesses of our home-buying process but to recognize the risks and costs inherent in owning a home. Sometimes the price—for the home buyer and for the economy as a whole—is too high to pay.

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