

Homeownership: the sacred cow of U.S. housing policy

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As we pick through the debris caused by the subprime lending fiasco, it is pertinent to ask how we got into this mess.

Dodgy lending practices, unreliable risk assessment, sheer greed and other dubious financial practices all played their part. But at the heart of the matter is the shibboleth that homeownership is the only housing policy worth pursuing.

Federal policies now make the alternatives to homeownership very unattractive. Public housing has disappeared for all but the very poor, and private renters get no tax breaks. In contrast, owner-occupiers get tax relief on mortgage interest repayments and capital gains from the sale of their homes up to half a million dollars. In 2006, these two subsidies cost \$112 billion in tax expenditures, and they are estimated to rise to \$174 billion by 2010. These are among the most regressive subsidies, aiding the wealthy and middle class more than lower-income households.

There are also personal benefits to homeownership. But these have been exaggerated by an aggressive and self-serving lobby of house builders, real estate agents and financiers. Most gains go to those with higher incomes. For people on more modest incomes, homeownership can be a very mixed blessing.

For one thing, their finances are severely stretched by mortgage repayments - as well as maintenance and repair costs that tend to be a higher proportion of total value for older, lower-priced homes.

And prices are more likely to fall or stagnate in lower-income areas; witness the devaluation of many inner-city neighborhoods passed over by the recent housing boom.

Many of the suburbs built between 1945 and 1980 experienced a crisis of falling prices, declining population and rising fiscal stress even before the subprime meltdown. Suburban counties such as Worcester in Massachusetts and Lackawanna in Pennsylvania, as well as small suburban districts such as Forest Park close to Atlanta, saw marked declines. The poverty rate in Forest Park, for example, doubled from 1980 to 2000. The new metropolitan crisis is in the inner-ring suburbs.

The homeownership rate, 55 percent in 1950, rose and then remained around 63 percent from the 1960s to mid-1990s. Since then, the rate has been pushed to almost 69 percent. Encouraging homeownership beyond around 63 percent, as successive administrations have done, has pushed more households into a precarious financial position.

If we have learned anything from the history of government, it is that one policy size does not fit all. Yet that is exactly our housing policy.

We need to embrace a diversity of housing possibilities. Let us level the playing field so that homeowners do not receive such disproportionate benefits by perhaps reducing and even eliminating the numerous tax benefits to owner-occupiers. Although politically difficult to accomplish in property-owning democracies, it is possible. The United Kingdom abolished tax relief on mortgage interest payments in April 2000.

Public housing is vanishing, but we can surely think of alternative forms of housing. There is a rich variety of innovative alternatives such as social housing, cooperative housing and others that can provide people with decent accommodation and much less financial risk.

It is time that we critically evaluate the costs as well as the touted benefits of promoting homeownership. Over the long haul, the gains are not so impressive as advertised. Middle- and lower-income households are financially stretched by a system geared to benefit the wealthy.

For middle-income America, homeownership is the preferred choice because there are no decent alternatives.

The single-minded pursuit of homeownership is an assumption taken for granted and shared by both left and right.

This sacred cow should be the biggest casualty of the recent mortgage crisis.

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