

A special report on property

## Own goal

Renting is becoming more popular, but only up to a point

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"THE psychology of the consumer has changed 180° from the bubble," says Ric Campo, the boss of Camden Property Trust, an American real estate investment trust (REIT) specialising in multi-family residential blocks. If homeownership was the American dream before the bust, lots of people are now waking up to the benefits of renting. Until the bubble got going, the "move-out rate" (the percentage of Camden's tenants leaving their apartments each year to buy a home) was about 12-14%. That rose to a peak of 24% when, as Mr Campo puts it, the banks started lending to anyone who could fog a mirror. It is now down to around 10%.

An analysis of relative returns from home-ownership and a portfolio of other investment assets by Eli Beracha of East Carolina University and Ken Johnson of Florida International University suggests that for most of the past 30 years it would have made economic sense for Americans to rent rather than buy. Their study necessarily makes lots of heroic assumptions—most notably, that renters will be utterly disciplined about investing the cash they save by not buying a home. Still, it is a useful corrective to the widely held belief that renting is a waste of money.

Political rhetoric in favour of home-ownership has fallen silent. Other countries have achieved the same or higher rates of ownership as America without destructive government subsidies (see chart 2). Plans to wind down Fannie Mae and Freddie Mac, the government-sponsored mortgage giants, are now on the table. If more people rent, house prices should become less volatile.

The social rationale for encouraging Americans to buy their homes—that ownership makes for more engaged citizens whose children do better at school—looks weaker than it did. A 2009 paper by David Barker of the University of Iowa and Eric Miller of the Congressional Budget Office points out that many of the "benefits" of home-ownership disappear when other variables, such as employment, are controlled for. In a separate piece of work, Grace Bucchianeri of the Wharton School of Business found little evidence that homeowners were happier than renters.

Whether any of this justifies talk of a "rental nation" is doubtful. America's home-ownership rate has dropped from 69.2% at its peak in 2004 to 66.5% in the fourth quarter of 2010. That is its lowest rate since 1998 but still a long way from that of Germany, which was only 46% in 2007. Switzerland's figure is even lower.

These gaps reflect entrenched differences. Some of them are cultural. "A commute of an hour is unacceptable in Germany," says Sascha Hettrich of King Sturge, a property adviser in Berlin. That pushes people toward the rented apartment blocks which predominate in city centres, especially when, as in Berlin, rents are very low. Other factors are institutional. German mortgage lending is a pretty conservative affair, making it hard for people to get onto the ladder without lots of cash to put down. And German tenants get plenty of protection from their landlords. Leases are open-ended and rent increases are controlled by a system pegging rents to those charged for comparable properties. Conservative investors feel safe in the knowledge that demand for properties is high and income is stable.

In America the crisis marks a structural change for a swathe of consumers who should not have



bought properties in the first place and will not be able to in future. But home-ownership rates are unlikely to drop much more, not least because lower prices have made houses more affordable. Messrs Beracha and Johnson reckon that, unusually, buying just now makes more financial sense than renting. In a speech last September John Paulson, a hedge-fund manager who made billions betting against the housing market, urged people to get back into the market: "If you don't own a home, buy one. If you own one home, buy another one, and if you own two homes buy a third and lend your relatives the money to buy a home." Assuming you have the cash.

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