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Home ownership's lustre gone

Analysis shows renting not a waste

By: **The Economist**Posted: **03/7/2011 1:00 AM** | [Comments: 2](#)

The psychology of the consumer has changed 180 degrees from the bubble," says Ric Campo, the boss of Camden Property Trust, an American real estate investment trust specializing in multi-family residential blocks.

If home ownership 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 homes) was about 12 to 14 per cent. That rose to a peak of 24 per cent when, as Campo puts it, the banks started lending to anyone who could fog a mirror. It is now down to around 10 per cent.

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 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. Plans to wind down Fannie Mae and Freddie Mac, the U.S. 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 once 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 per cent at its peak in 2004 to 66.5 per cent in the fourth quarter of 2010. That is its lowest rate since 1998.

In America, the crisis marks a structural change for a group of consumers who should not have bought properties in the first place and will not be able to in the future. But home ownership rates are unlikely to drop much more, not least because lower prices have made houses more affordable.

Beracha and Johnson feel 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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