

WebMemo



Published by The Heritage Foundation

No. 3009
September 9, 2010

Obama's Emerging Housing Policy: Will Ideology Trump Opportunity?

Ronald D. Utt, Ph.D.

Beginning in mid-summer 2010, the Obama Administration and its supporters initiated an outreach to the press to discuss some of the broad policy themes that could be included in the President's ongoing transformational narrative on housing policy, whose details are expected to be revealed in early 2011. Although there have been no official pronouncements on this emerging policy from the Administration, statements by mid-level political appointees to the media indicate that an emerging plan that would de-emphasize homeownership and elevate renting as one of its key components.

Perhaps in response to this outreach effort, in July and August *USA Today*, *The Washington Post*, *The Wall Street Journal*, *Barrons*, *Financial Times*, *Time*, and *The Economist*¹ ran similar stories raising questions about the value of homeownership and the benefits of renting. But such policies could reduce Americans' wealth by discouraging investment in an asset that has well served most middle-class American families over the long run.

Embracing the Past. Reflecting the global scope of the urban elite's new war against homeownership, the left-of-center *The Economist* (London) noted that:

More Britons might be more comfortable, both financially and domestically, if they [ditched] their home-owning aspirations.... In 18th-century England even the rich were happy to live in rented accommodation. Now, for no very good reason, that has come to be seen as second-best.²

Note to *The Economist*: In 2007 the median value of financial and non-financial assets held by homeowners in the U.S. who reported both types was \$344,000, compared to \$13,600 for similarly reporting renters. For homeowners, their primary residence amounted to \$200,000 of their non-financial assets.³ It is quite likely that similar patterns of wealth accumulation hold in the U.K., where home values have also escalated. Apparently this strikes many Britons as a "very good reason" to be a homeowner, and 70 percent of British households have opted for it despite the absence of generous U.S.-style tax incentives.

While the refocus on ownership versus renting is presented as an effort to address inherent flaws in the system, in fact this latest effort is a continuation of Obama's national smart growth policy that emerged in the second month of his first term⁴ and has since been pursued by his Secretary of Transportation, Ray LaHood. LaHood has made no secret of his contempt for America's suburbs and automobiles and seeks policies that would compel Americans to return to lifestyles common to the late 19th century (as opposed to *The Economist's* apparent preference for the 18th) when most Americans lived

This paper, in its entirety, can be found at:
<http://report.heritage.org/wm3009>

Produced by the Thomas A. Roe Institute
for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

Nothing written here is to be construed as necessarily reflecting
the views of The Heritage Foundation or as an attempt to
aid or hinder the passage of any bill before Congress.

in dense communities, were renters, and moved about by walking.⁵

As Heritage recently noted,⁶ there is every reason to believe that Obama's transformational housing plan will embody many of the prejudices that the urban elites hold toward those who have opted to live in the suburbs and will be designed to compel or nudge them to adopt lifestyles that mimic lifestyles common to many European cities (but not their more populous suburbs). To achieve this goal, the Obama Administration is considering reducing the value of the federal income tax benefits available to homeowners,⁷ which, of course, would have the side benefit of increasing federal tax revenues at a time of ballooning budget deficits.

What They Ignore. Tellingly, the Administration has made no mention of the abusive state and local land use regulations that raise house prices and had a major contribution to the rise and collapse of home prices in several states.

Such regulations are at their worst in California, where the homeownership rate (in 2009) is only 57 percent (the lowest in the nation), compared to 67.4 percent nationally. University of Toronto Professor Richard Florida—whose ownership prejudices and urban nostalgia parallel Obama's—says that the

ideal homeownership rate is 55 percent, exactly where the nationwide rate stood in 1950, and about where it is in California—ground zero for the mortgage finance collapse.⁸

More Subsidies for Renters? As Team Obama thinks about steps to deter homeownership, they also noted that they will be reviewing policies on renting, with the prospective goal of creating more of what is euphemistically referred to as “affordable housing” but translates into standard English as “more taxpayer-subsidized housing,” such as public housing or rent vouchers.

At Treasury's August meeting, an advocate for subsidized housing argued for an “increased federal presence to make up for a supply gap as demand outstrips the quantity of available units by about 3 million.”⁹ Notwithstanding the perception that rental housing suffers from both federal and private neglect, data from Census indicate that the U.S. is experiencing a *glut* of rental housing and that the rental vacancy rate—now at 10.6 percent—is at the highest level since Census began collecting the data in 1970.

At present there are about 130 million housing units in the U.S., and approximately one-third, or 43 million units, are rentals. At a 10.6 percent

1. Zachary A. Goldfarb, “Next Up for Reform: Housing Finance,” *The Washington Post*, July 21, 2010, p. A14; Paul Wiseman, “Feds Rethink Policies That Encourage Homeownership,” *USA Today*, August 11, 2010; David Wessel, “Rethinking Part of the American Dream,” *The Wall Street Journal*, June 17, 2010; Gene Epstein, “Renter Nation,” *Barron's*, July 26, 2010, p. 19; Suzanne Kapner, “US Housing: Sunset Boulevard,” *The Financial Times*, August 16, 2010; Barbara Kiviat, “The Case Against Homeownership,” *Time*, September 6, 2010.
2. *The Economist*, “Whose Backyard Is It Anyway?” August 14, 2010, p. 43, at <http://www.economist.com/node/16793014> (September 2, 2010).
3. Board of Governors of the Federal Reserve System, “2007 Survey of Consumer Finances,” May 7, 2009, at <http://www.federalreserve.gov/pubs/oss/oss2/2007/scf2007home.html> (September 2, 2010).
4. See Ronald D. Utt, “President Obama's New Plan to Decide Where Americans Live and How They Travel,” Heritage Foundation *Backgrounder* No. 2260, April 14, 2009, at <http://www.heritage.org/research/reports/2009/04/president-obamas-new-plan-to-decide-where-americans-live-and-how-they-travel>.
5. Ronald D. Utt, “No Tax Increase for Federal Transportation Programs?” Heritage Foundation *WebMemo* No. 2870, April 19, 2010, at <http://www.heritage.org/Research/Reports/2010/04/No-Tax-Increase-for-Federal-Transportation-Programs>.
6. See Ronald D. Utt, “The President's Worrisome Narrative to Discourage Homeownership,” Heritage Foundation *Backgrounder* No. 2450, August 11, 2010, at <http://www.heritage.org/Research/Reports/2010/08/The-Presidents-Worrisome-Narrative-to-Discourage-Homeownership>.
7. Goldfarb, “Next Up for Reform: Housing Finance.”
8. Wiseman, “Feds Rethink Policies.”
9. Thecla Fabian and Aaron Lorenzo, “Treasury Gathers GSE Reform Ideas in ‘Future of Housing Finance’ Conference,” *Daily Report for Executives*, Bureau of National Affairs, August 18, 2010.

vacancy rate,¹⁰ this implies about 4.5 million vacant rental units, 1.5 million more than low-income housing advocates claim are needed. Data also reveal that 44 percent of all rental units in the U.S. rent for \$700 per month or less,¹¹ well within the range of moderate-income families.

So Why the Big Push for More Rentals? The government's own data reveal a market characterized by abundant supply, record-level vacancies, and affordable rents. So where the Obama narrative sees despair, Census data show both opportunity and an American consumer who is not buying into the New Age, New Urbanist, café-society culture. With rental vacancy rates in metropolitan areas exceeding the regional averages, and with central city vacancy rates higher still, the logical inference is

that urban rentals are a housing choice in which few American consumers are interested.

At the same time, amidst the clamor for subsidized rentals, one must ask whether the nation is witnessing a *housing* problem or an *income* problem, the latter exacerbated by the Great Recession. As such, the President's emerging housing narrative promises to treat symptoms, not causes. It is time Obama acknowledges that his stimulus plan has failed and that what Americans want are jobs and steady paychecks, not more public housing.

—*Ronald D. Utt, Ph.D., is Herbert and Joyce Morgan Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*

-
10. U.S. Department of Commerce, Bureau of the Census, "Housing Vacancies and Homeownership, Annual Statistics: 2009, Table 1: Rental and Homeownership Vacancy Rates by Area."
 11. U.S. Department of Commerce, Bureau of the Census, "Housing Vacancies and Homeownership, Annual Statistics: 2009, Table 2: Rental and Homeownership Vacancy Rates, by Selected Characteristics and Percent Distribution of All Units: 2008 and 2009."