Emphasizing Homeownership Is Questionable Policy

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According to a *Post-Dispatch* article, the housing market in Missouri is very weak , to the surprise of probably no one. Housing groups propose the following solution:

> [T]hey would like to see more state money directed to counseling and prevention, to help keep more people [...] out of foreclosure. But with the tight state budget, they said a good first step would be a task force, to better organize and coordinate anti-foreclosure efforts, and to raise awareness of the problem.

It would be preferable if government stopped intervening in the housing market because then housing prices would return to their equilibrium level. The high foreclosure rate is yet another example of a government-created problem that would be better solved with less government, not more.

Throwing more state money at the problem is more likely to incite people to buy more expensive houses than they can afford than to reduce the rate of foreclosure. Programs that encourage homeownership already exist at practically every level in the government, but despite these programs, the rate of homeownership has remained steady over time . The $8,000 federal first-time home buyer tax incentive was recently extended , and there are additional ways in which Missouri homeowners can obtain financial assistance , such as a $1,250 tax incentive under the Missouri Homeowners Purchase Enhancement Program and additional incentives for energy-efficient home purchases or upgrades.

Is a task force really necessary "to raise awareness of the problem [of foreclosure?]" Last time I checked, everybody was well aware that the housing bubble burst .

When the government nudges individuals and families into homes that they may not want or be able to afford, the consequences are overwhelmingly negative. Missourians and Americans are better off when individuals live within their means, because fewer people will lose their homes, and fewer people will have to pay to keep others in theirs.

Owning a home may be preferable for some, but homeownership is not suited for all. There are financial and lifestyle factors to consider, and the government does not have enough information to know what is best for each individual and family. I know that homeownership is not for me. Although I am missing out on lucrative tax incentives from the state and federal governments, I choose to rent because it suits my lifestyle and budget better than owning. I have no desire to spend my time doing yard work, fixing things that break around the house, or cleaning guest bathrooms. Similarly, I don't want to pay to repave a driveway, install new rain gutters, or have an insurance umbrella. I get much more utility from a new iPad than a new patio set. These are my preferences, which would be inappropriate to impose on others; similarly, it's inappropriate for the government to set artificial incentives that encourage homeownership by individuals like me.

Additionally, encouraging homeownership over renting is poor policy. It could negatively affect the economic recovery, because it prevents workers from moving where the jobs are. Owning a home increases the cost of relocation because it ties an individual and his or her family to a geographic location. It is easier for a renter to relocate for a new job than for a homeowner to do so. Renters can relocate at the end of their lease or find a subletter, but homeowners have to sell their homes — a process that can take years.

Real estate is not a risk-free investment. I am reminded of an article that appeared last year in the *Washington Post*, "5 myths about home sweet homeownership," in which Joseph Gyourko, chairman of the real estate department at the University of Pennsylvania, argues against the commonly held idea that homeownership is a investment with good returns and no risks.

> Between 1975 and 2008, the price for houses of comparable quality and size appreciated an average of about 1 percent per year after inflation. You would have earned well over 2 percent per year after inflation had you invested in Treasury bills over the same period.

When a person invests her money, she assumes risk. Higher returns are supposed to be the payoff for accepting larger amounts of risk. With the possible exception of Treasury bonds, there is no such thing as a riskless investment. Unfortunately, real estate is all too often viewed as one. Buying a house is just like any other investment — there is a possibility that the purchaser will lose money. In some aspects, real estate is riskier than stocks because houses are not diversified (i.e., in the event of a natural disaster, a person's entire investment is wiped out). Thorough research and cost-benefit analysis are crucial before potential home buyers make what will be one of the largest financial decisions of their lives.

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