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Rent out the American Dream?

Homeownership has been a central tenet of a 'richer and fuller life' in the USA, but foreclosures are severely testing this model. A possible solution: Rent these homes as a first step toward a more affordable, flexible housing system.

By Richard Florida

For the past half-century, owning a single-family home has formed the cornerstone of the American Dream. James Truslow Adams introduced that phrase in 1931, at the heart of the Great Depression, defining it as the "dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement."

(Illustration by Suzy Parker/ USA TODAY)

Today, those two aspects of the American Dream — a better, richer life and homeownership — are in conflict. We could well look back on this moment and conclude that Americans acted as indentured servants to their homes. Single-family homeownership consumes an ever-larger share of income for far too many people, sometimes bankrupting them, but far more commonly severely constricting their way of life.

The system of single-family homeownership served us well for decades, helping set in motion a long wave of industrial expansion that fueled suburbanization and all the consumption that went with it. My father, a factory worker, toiled at the same Newark, N.J., eye-glass plant his entire working life. My parents lived in one house in nearby North Arlington, which they bought in 1959 and lived in until they died.

Though the housing system should no longer be allowed to put the nation's economy at risk, President Obama has gone overboard with his plan to stabilize housing, stem the tide of foreclosures and breathe life back into the paralyzed mortgage market. His quest to reinvigorate homeownership actually acts against the flexibility and affordability needed for economic recovery. Less homeownership and more rental housing is what today's idea-driven economy needs:

• **Flexibility.** The heart of a creative economy is flexibility. But homeownership is by definition inflexible. Various economic studies show that those who own homes, especially those who fill the ranks of the working class, are hobbled in their ability to respond to downturns in business cycles.

As homeownership rates rose, eventually reaching a peak of nearly 70% in 2004 — our society became less footloose. Last year fewer Americans moved, as a percentage of the population, than in any year since the Census Bureau started tracking address changes in the late 1940s.

This creeping rigidity in the labor market handcuffs our competitiveness. Economist Andrew Oswald has found that in the U.S. and Europe, places with higher homeownership rates also suffered from higher unemployment. During down times, homeownership can lock people into blighted locations and force them into work, if they can find it, that's a poor match for their abilities.

• **Affordability.** Homeownership is also a financial albatross around the necks of too many "house poor" people. The rule of thumb used to be that you should pay 25%-30% of your income on housing. But the amount people pay has skyrocketed. Add in transportation, utility bills, food and clothing, and what's left over to create demand for an industry's goods and services? It's reckless for Obama to propose foreclosure relief that would extend mortgage terms to 40 years and reduce monthly payments to 38% — or even 31% — of income.

On top of all this, homeownership doesn't make us happier. A recent study by Grace Wong Bucchianeri, an economist at the University of Pennsylvania's Wharton School of business, shows that, controlling for income and demographics, homeowners are no happier than renters and report higher levels of stress.

What about building equity in your home and taking advantage of mortgage interest deductions? If your home is now worth less than your mortgage, and you've already borrowed against the equity in your house, that's the least of your concerns.

What's needed is a complete overhaul as sweeping in scope as the one that brought to us the modern system of housing finance during the 1930s and the post-World War II homeownership boom. In his forthcoming book *The Wealth of Cities*, my University of Toronto colleague Chris Kennedy shows that real economic recovery and rapid expansion will come only from major upgrades in infrastructure, new housing patterns and significant shifts in consumption.

The foreclosure crisis, therefore, creates a real opportunity.

Let's start with overburdened homeowners. Instead of resisting foreclosures, the federal government should facilitate them in ways that minimize pain and disruption. The government could work with banks and real estate companies to offer to rent each home to the previous owner at market rates, which are typically lower than mortgage payments, for a certain number of years. At the end of that period, the former homeowner could be given the option to repurchase the home at the prevailing market price. Some banks have started taking this step.

And what about the homeowners already forced into foreclosure? The government could help banks and large real estate companies turn these homes into rental properties, helping to clean up neighborhoods while providing affordable rental housing.

A bigger, healthier rental market, with more choices, would also enable millions of people to move and find jobs, which in turn would make the lives of more people and the nation's economy more stable.

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