Matthew YGLESIAS

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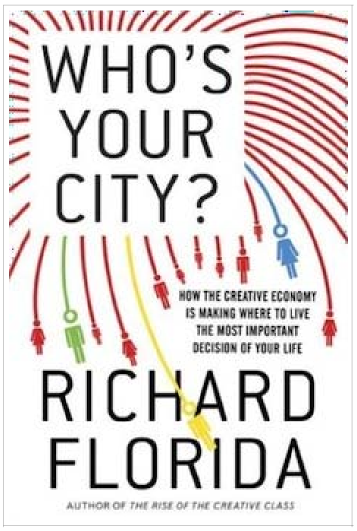
The Trouble With Homeownership

04 Mar 2008 01:13 pm



This is a provocative thought from Richard Florida's *Who's Your City? How the Creative Economy is Making Where to Live the Most Important Decision of Your Life* which arrived in my mail yesterday:

> [T]he way we house people today seems a bit out of sync with other demands of our highly mobile and flexible economy. The United States has long prided itself on being a nation of homeowners. We boast that more than 60 percent of Americans owns their homes. We encourage young people to save enough to buy one of their own. We provide all sorts of public incentives from tax write-offs on mortgage interest to public investments in infrastructure -- to encourage home ownership. It is, after all, the centerpiece of the American dream.
>
> I can't help but wonder whether this dream doesn't belong to a bygone industrial era. A central element of the creative economy is its flexibility. People change jobs often. [....]

Let's put it this way. One major attraction of investing one's savings in a home rather than in a broad index fund of stocks is that you can *live in your house* whereas the stocks are useless. But this introduces some rigidities into the economy which make it harder for workers to leave the places where nobody wants to hire them (Ohio, Michigan, etc.) and go to the places where people are looking for more workers (Arizona, Florida). For one thing, the transaction costs involved in selling your house are much greater than what's involved in leaving a rental property. Similarly with buying a new one. But what's more, the "living in your retirement fund" duality comes into play.

If you're considering leaving Michigan because it's economically depressed, you're not alone. As a consequence, your house probably isn't very valuable. If your stock investments tank, there's nothing you can do about it. But if your home investment tanks, you can still live there! Unless, that is, you try to move. If you'd been living in a rental and investing in the stock market, you could liquidate some of your investments to help finance the move to a more vibrant area where housing costs and employment prospects are better. But if you spent your

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savings on your house, then you're basically stuck.

Now obviously homeownership has some real value, but when you consider factors like that it's not clear that we should be making it a policy priority to especially *subsidize* this one form of asset-building over all others. In particular, if you encourage people to live in their savings, the tendency is to acquire *more house* than they otherwise might (instead of a house plus some stock, you buy a bigger house) which compounds the economic rigidity issues and is bad for the environment to boot.

Florida suggests that residential leases might become more like commercial ones with longer-term leases and more flexibility for tenants in terms of altering the property.

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We moved around a few times in our 20's and, it's true, that we didn't need to own a home at every stop (although we did at most of them). However, once we hit our 30's and had school age kids mobility seemed very overrated. We're settled for the next 20 years (hopefully)! Haven't read the book yet but surely this is a recommendation for single 20-somethings and not for married folks with kids. Is Matt suggesting we need more families moving about?

Posted by citizen (world) | March 4, 2008 1:30 PM

Are Arizona and Florida still looking for more workers? Has the housing slowdown had no effect on employment in AZ/FL/wherever else yet?

Posted by zaleriana | March 4, 2008 1:31 PM

I would think that leaving a social network behind is a much bigger obstacle to switching cities than selling a house. Capital will always be more "flexible" than labor.

Posted by Tyrone Slothrop | March 4, 2008 1:35 PM

One think I've noticed in my condo is that there are some people who buy in for 3-5 years, and there are others who buy in for the long term-- I guess you need both in a community.

Posted by MattF | March 4, 2008 1:35 PM

But this introduces some rigidities into the economy which make it harder for workers to leave the places where nobody wants to hire them (Ohio, Michigan, etc.) and go to the places where people are looking for more workers (Arizona, Florida).

There's some truth to this, but I imagine the location of a family's social circle, schools, churches, relatives, etc. act as a much, much greater brake than the transactional costs of buying and selling homes.

If you'd been living in a rental and investing in the stock market, you could liquidate some of your investments to help finance the move to a more vibrant area where housing costs and employment prospects are better.

Why would the housing costs be better in the more vibrant area? Wouldn't they be a lot higher? And isn't this the same whether you're renting or buying?

Posted by right | March 4, 2008 1:37 PM

Is it just me, or do non-homeowning urbanites like Matt and Atrios expend an awful lot of words on how awesome, virtuous and economically rational non-homeowning urban lifestyles are? There's truth to what they say, but the sheer quantity of attention they pay to the issue comes across as smug and self-congratulatory.

And yes, I'm a happy new homeowner, lifelong urbanite just moved to the burbs, so go ahead and write me off as just another member of the deluded herd defending his unearned tax privileges. (Living childless in NJ, it's hard to feel privileged in matters of taxation.)

Posted by Ryan | March 4, 2008 1:39 PM

Bear in mind that it is government that imposes a great deal of the transaction costs involved in moving from your own house to another.

Posted by Sam | March 4, 2008 1:40 PM

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While the issue of one's social network is a good one in providing a disincentive against moving, not having a job is an even *larger* incentive to move. I love my friends and family, but I'm not going to go into debt for the privilege of living near them.

It might help to lower the transaction costs of selling one's home and getting a mortgage, rather than get rid of things like the mortgage interest deduction, which just put homeowners on a level playing field with landlords.

Posted by Tyro | March 4, 2008 1:42 PM

An interesting aside about Michigan. Recently the US automakers offered buyouts to their workers, and many in Michigan declined the buyouts because they were unable to sell their home, virtually at any price. One can argue that the current downturn there is an unusual event, a singularity, but it gives one a reason to re-examine the equity argument.

Posted by freddiemac | March 4, 2008 1:44 PM

American culture, in its present era, has elevated two factors above all others in the pursuit of "the good life", middle and upper-middle class domesticity: a college education and owning a house. You can either make both more accessible, or you can try to change the social pressures compelling Americans to pursue them. I'm more in the latter camp, but as long as people equate home-ownership with success and stability, it doesn't look like things are going to change very soon.

Posted by Freddie | March 4, 2008 1:46 PM

Is it just me, or do non-homeowning urbanites like Matt and Atrios expend an awful lot of words on how awesome, virtuous and economically rational non-homeowning urban lifestyles are? There's truth to what they say, but the sheer quantity of attention they pay to the issue comes across as smug and self-congratulatory.

It's not just you.

Posted by Roberto | March 4, 2008 1:46 PM

Bear in mind that it is the government that imposes a great deal of the transactional costs involved in moving from your own house to another

At some point, I'd be interested in see what part of the law mandates 3% fees for each realtor and 1-2% in mortgage origination fees to the lender. Let me know!

Posted by Tyro | March 4, 2008 1:47 PM

Isn't Florida's idea of a "creative economy" sort of notoriously narrow? Can his suggestions really apply to those poor souls trapped in the industrial economy?

I guess high bohemians are primarily interested in maximizing their flexibility.

Posted by berger | March 4, 2008 1:48 PM

The MID is not a subsidy. It simply puts the homeowner on the same level as the landlord/business owner who has the ability to deduct mortgage interest as an expense, in addition to maintenance, depreciation, etc. Without the MID, there would be no reason to own a home.

Posted by bjk | March 4, 2008 1:50 PM

1-2% in mortgage origination fees to the lender

Lots of people pay origination fees in these amounts? Maybe I'm just insulated from it, but I don't know anyone who has paid anything like that much. Or are you refering to the whole bundle of closing expenses, including appraisal fees, title insurance, transfer taxes, escrow deposits, etc.? Because, in most of the country, there is little reason to pay a significant origination fee--anything more that $500 or so is too much--and that amount should cover credit checks and "document" fees.

Posted by zaleriana | March 4, 2008 1:56 PM

I don't see how renting and investing can even be compared financially to homeownership. Say you rent for $1000 a month, for 5 years. That is $60k you have just lost, for all investment purposes. I don't care how bad a housing market is, I doubt you would end up leaving after 4 years with 60k less than you put in. You would have to make unbelievable investments while you were renting to make up for the money you had lost by paying rent.

Posted by ngilder | March 4, 2008 2:00 PM

There are at least two decent arguments for encouraging home ownership.

The first is more traditional, which is that home ownership encourages investment (broadly defined) in the local community, where local is really local (your immediate neighborhood). Basically, the argument would be that while it is true that home ownership makes moving between job markets a little harder when such a move would be warranted, it only has a marginal effect on that issue (as others above pointed out). But where home ownership may matter quite a bit more is in the frequency of the moves people make between local communities within a job market.

And the reason that matters is basically a collective action problem (broadly along the lines of the Prisoner's Dilemma): it is hard for anyone to single-handedly maintain and improve a neighborhood, so it becomes awfully tempting for people (particularly people of relative means) to move to whatever neighborhoods seem to be already doing relatively well. But that causes a competition for those better neighborhoods, and puts more marginal neighborhoods in jeopardy of entering a vicious cycle.

Now, some competition for living in better neighborhoods is inevitable, as is neighborhoods sometimes declining as the world around them changes. But there could be excessive competition for neighborhoods, meaning competition that is actually reducing the total available social welfare, and neighborhoods could be declining more in the short term than is entirely justifiable given their long term prospects.

Home ownership addresses these problems by making it economically worthwhile to move less frequently, and thus reducing the overall level of neighborhood competition and the likelihood of vicious cycles dominating. In fact, generally home ownership encourages people to develop longer-term interests in their local community, thus creating a virtuous cycle of local investment.

The slightly less traditional argument for encouraging home ownership is how it can help moderate the economic cycle (admittedly an odd argument to be making at this particular moment, but a decent one over the long run). The crucial empirical finding is that people tend to respond to additional wealth in the form of home equity with additional consumer spending faster than they do with additional wealth in the form of securities. That is important because deflationary recessions are more or less caused by insufficiently rapid increases in consumer spending in response to wealth effects.

So, for example, when a central bank starts dropping cash from helicopters (AKA lowering interest rates), people have an unfortunate tendency to sometimes use that cash to pay down debt or stick in a bank, rather than spend it (just ask the Japanese). But if those lowered interest rates lead to higher home prices, people might actually go ahead and increase their consumer spending.

Again, arguably policymakers in the U.S. recently overdid it with this particular lever (although arguably that was also better than the alternative of letting the tel & tech bust get much worse). But in general the very existence of this lever is a pretty important component of modern economic cycle moderation efforts.

Posted by DTM | March 4, 2008 2:05 PM

ngilder, say you do rent for $1000 month. Buying a comparable place to live may cost $1200/month in a mortgage payment. Then you have to consider taxes and maintenance. Plus the fact that most of the payments for the first 5 years will be interest (as much as $1000/month!). If your house appreciates significantly in value over the course of that 5 years (above the transaction fees), then you will have made a lot of money, but other than that, it could be a wash. (and I still think buying is a good idea in most cases, I'm just saying how renting COULD be a better option).

zaleriana, I just did a quick estimate that was inclusive of all of the fees together. I had thought that 1% was typical when I looked up these thing, though I admit I could be wrong (like MattY, I am one of those young professional urban renters).

Posted by Tyro | March 4, 2008 2:09 PM

nglider,

You are missing some key components in your comparison. Basically, to buy a home equivalent to your $1000/month rental, you will need to tie up a large lump of capital and/or borrow that capital. If you instead invest that capital (or don't borrow it), you get the return on that capital (or the saved interest payments) to offset your rent.

And in theory, this should all equalize over the long run. That is because people should be converting owner-occupied homes to rentals, or vice-versa, whenever the supply of one or the other is causing there to be a notable difference in the economic benefits of renting versus buying.

Posted by DTM | March 4, 2008 2:14 PM

ngilder you wrote,

I don't see how renting and investing can even be compared financially to homeownership. Say you rent for $1000 a month, for 5 years.

Thats because you are not seeing the whole picture, when you buy a house, you have to pay interest on the mortage, insurance, property taxes, maintenace & HOA fees, plus the transaction costs of buying and selling.

Even if you pay for your house cash, you still have to take into account the interest on your capital that you would not be earning.

As a homeowner that had to move for work-related reasons and still unable to sell after close to a year (yes I pay rent and mortage!); I can tell you that buying a house is not automatically the wisest thing to do.

Posted by Henry | March 4, 2008 2:19 PM

I have never lived anywhere long enough to make owning a home practical, which suits me fine because I don't want the responsibility anyway. But I will probably stay here in Baltimore for seven more years. Buying instead of renting might be a better deal over the next seven years, but not enough to justify the hassle. Then I will retire, move to Vancouver BC, and rent until I die.

Posted by Gary Sugar | March 4, 2008 2:22 PM

The MID is not a subsidy. It simply puts the homeowner on the same level as the landlord/business owner who has the ability to deduct mortgage interest as an expense, in addition to maintenance, depreciation, etc. Without the MID, there would be no reason to own a home.

I used to think this, but then I realized I was wrong. The question is not about putting the homeowner on the same level as the landlord, but putting him on the level with the rentor. If I'm renting, I have to pay enough in rent to cover the landlord's interest payments on the property, property upkeep plus an investment return on his invested capital. I don't get to deduct any of that. If I'm a homeowner I have the exact same caculus: interest payments, property upkeep, plus whatever money I'm losing by not investing my capital elsewhere in the market. But now I get to deduct interest? This means that homeownership is a strictly superior arrangement, when you discount the transaction costs (You pay 3% to both agents so it's 6% in all. How crazy is it to make a highly leveraged investment and pay 6% on leverage? That's 30% of your investment if you're talking about a 20% down payment).

The difference between homeownership and being a landlord is that the landlord is running a business and he pays taxes on his net profit, which is income-expenses. The homeowner paying itnerest on his loan is paying the effective cost of living in that house. We don't get to deduct our life expenses from our tax reports. And rentors certainly don't get the same deal. If a homeowner gets to deduct their interest payments, I should get to deduct 60% of my rent.

Another item: the interest rate deduction further encourages risky homeownership. You could own your home and lose the opportunity to invest $300,000 in the market. Or you could keep paying interest to the bank, invest that money profitably and deduct those interest payments. Not to mention that the homeowner deduction is a regressive deduction for the upper-middle class. It's a broken system, but there's a lot invested at this point.

Posted by mpowell | March 4, 2008 2:54 PM

I just finished reading Jane Jacob's "the Economy of Cities" from 1969. Interestingly, she busts on civic leaders in Pittsburg since WWII who were attempting to do a Richard Florida like transformation of the city through civic investments.

Posted by lemmy caution | March 4, 2008 2:54 PM

Has this guy Florida ever lived a real life? The older you get the more expensive and disruptive it becomes to move. I used to move a lot, like every 2 years, and most people just don't want to live like that.

Owning a home also shield you from market turmoil. I used to live in Manhattan and saw my rent go up in the late 1990s about 10%-20% a year. I was subject to market pressures that don't exist when you own a home.

Posted by Helter | March 4, 2008 2:58 PM

mpowell is right, of course. I've found that the simplest way to put it is that the mortgage interest deduction is subsidized leverage, but the subsidy is conditioned on the borrower buying a home as the underlying asset (you can't, for example, get the subsidy for borrowing to buy stocks).

Posted by DTM | March 4, 2008 3:12 PM

Matt, many good points. But your analysis seems to start with the assumption that the moving every few years to chase jobs is desirable.

Is the problem homeownership tying folks to OH or MI, or is the problem that jobs are leaving OH and MI?

Posted by Dan F. | March 4, 2008 3:12 PM

Sorry, but I should clarify you might be able to get a deduction for interest paid on a loan used to buy stocks. You just don't get it automatically, and it is capped.

Posted by DTM | March 4, 2008 3:16 PM

I've long thought that the government should subsidize housing to the extent that it got you a pretty average house, but not beyond that.

There's an argument (perhaps) for subsidizing homeownership, but there's no good argument for subsidizing mansion ownership.

Posted by low-tech cyclist | March 4, 2008 3:33 PM

"ngilder, say you do rent for $1000 month. Buying a comparable place to live may cost $1200/month in a mortgage payment. "

In the market I live in, it's far more expensive to buy. My $1600/month apt, is equal to a $450,000 condo. Even in just mortgage payments, minus the tax deduction, it's not even close to the same price. Include everything and unless you're seeing 15% a year you aren't making a lot of money.

I'm not against homeownership, but the idea that if you're renting you're "throwing money down the drain" is false.

Posted by JordanT | March 4, 2008 3:38 PM

Adding to Helter's comment: as hangover from the plantation economy, many home grown residents in Hawaii never bought their homes. When the Japanese ('80's) and mainland Americans ('00s) started buying everything in sight, quite a few of these lifelong renters found themselves either kicked out or priced out of "their" rental.

Being brought up within the community of Marine brats, I can testify that pulling up stakes frequently ain't really conducive to stable families.

Posted by cmholm | March 4, 2008 3:39 PM

"But your analysis seems to start with the assumption that the moving every few years to chase jobs is desirable."

What about telecommuting?

Posted by CParis | March 4, 2008 3:40 PM

"At some point, I'd be interested in see what part of the law mandates 3% fees for each realtor and 1-2% in mortgage origination fees to the lender. Let me know!"

Well, there's nothing statutory in the law that mandates those fees, but they are caused by government inaction. The fees are almost always set through illegal collusion among real estate agents (in the town I used to live in, they tried to expel a member of their association, and stop showing the houses he was listing, because he charged 1.5%). By declining to prosecute, local governments allow it to continue.

Posted by too many steves | March 4, 2008 3:43 PM

The cost of switching homes might be high, but I think you're missing the big benefit of home-ownership that outweighs everything. It's not about the investment opportunity, it's the rent-savings opportunity.

I'm 27 years old and have paid $1100 mortgage for the last 4 1/2 years. That's $59,400. In a very real way, that is my money. If I moved to a home across the country for a new job without trading up to a more expensiveh ouse, I have been building equity, which means that for my next house the mortgage probably won't go up and may even go down a bit.

But if I'd been renting for those 4.5 years, the lease rates in my area would have cost me at least $45,000 in rent, of which I get nothing back later when I move. I could have invested that remaining money ($14,400) and it could have accrued quite well. But I still would have been throwing away $45,000 when I could have kept it. That is the real benefit of homeownership: I get to keep my rent.

Posted by Erik Hanberg | March 4, 2008 3:44 PM

Erik Hanberg, you *do* realize that most of those payments you're making are interest, right?

You probably made a good decision to buy, but the money you "keep" is in the form of the rising value of your home when you sell it, not the small amount of additional principal you paid down on your loan. You could have rented for less than your mortgage+maintenance+taxes and put the difference in the bank.

The advantage you get is that even if home prices rise a few percentage points a year, you get to keep that increased value when you sell.

I don't want to say anything against homeownership: the only people who really got harmed are the people who overleveraged themselves, people who bought 2 years ago and now have to move, and people in the rust belt who can't unload their homes at any price when they still have a large mortgage to pay off.

Posted by Tyro | March 4, 2008 3:51 PM

My father stuck it out in Pittsburgh through the 70's and 80's, shopping at Hill's (props from Yinzers - soft pretzel anyone?). It was there that my older sister cried because she could only have unisex clothes (this was pre-hips) so that her outgrown pants could hand down to me, her stupid little brother.

Pittsburgh (at one time Florida's home) has recovered and my folks are doing very well for themselves, but I never, ever thought I got a rough trade when I was a kid. What I got was a Norman Rockwell life. What I gave up was new pants. Sis gave up dresses.

I think that's what Florida misses: life. He's focused on the pants. Or dresses.

Posted by Daniel | March 4, 2008 3:59 PM

"What about telecommuting? "

Indeed. As a member of the "creative class", I own a home in a relative backwater state. I work from that home.

I work regularly with urbanites in high-rent districts, in Boston, Silicon Valley, Northern Virginia, etc.

The notion of having to move for a job (especially within the creative class) is subsiding.

Posted by Strega Nona | March 4, 2008 4:05 PM

Erik,
Yeah, but you don't gain $1 equity for every $1 you pay in towards your mortgage. The way that payment plans are ballooned, the vast majority of every $1 you pay towards your mortgage goes towards your interest for the first 7-8 years anyways. It is absolutely ridiculous to think that you saved $45,000 by buying instead of renting. The only case in which you would be right is if the housing market was very favorable in the 4 1/2 years you've been in your home.

I've rented and owned, but its crazy how much people that own homes think they're slaying all the other schmucks with their investment.

Posted by Todd Doug | March 4, 2008 4:10 PM

Personally, I like the idea of longer-term leases with more flexibility for changes. I rent in a well-run, well-maintained, pest-free managed building in a neighborhood I love. I probably won't ever make enough money to be able to buy there, though.

There is a couple on my floor who've lived in their apt for 40 years. They're happy not having to maintain (and yes, they're on a much lower scale of payment than me - but I'm on a much lower scale than the folks moving in now...), and plan to live there till they retire.

I'm going to move to a higher floor as soon as I can (the stupid DC condo glut is going to cost me my Capitol view), and then, like my neighbor, I'll stay put for as long as I can.

But a person can only take so much Rental Beige!

It'd be great to be able to go to the management and say, I'll sign a 5 year lease if the break-off terms are reasonable, I can paint, and I can replace appliances if I want to.

Posted by ajw_93 | March 4, 2008 4:14 PM

mpowell, I'm confused by your point. Since the interest subsidy lowers the amount a landlord needs to charge on his property in order to be profitable, shouldn't a portion of that subsidy get passed on to renters in the form of somewhat lower rents (just as interest rates and property taxes are reflected in rents--this is of course all assuming the market is working perfectly, which it's not--but in principle for the purposes of this question?)

Posted by flippantangel | March 4, 2008 4:15 PM

Real estate is one among many investment options. Every investor should try and diversify their portfolio, and real estate should be a part of the pie. I used to own a townhouse, and I sold just before the market soured. And no, I can't foresee the future. I took a transfer to NYC and just got lucky. After deducting transaction costs, I doubled my initial investment in 3-4 years or so. That is pretty darn good. While it is true that the bulk of the initial mortgage payments are interest, it is also true that all capital appreciation accrues to the homeowner. It's the power of leverage and mortgage borrowing is among the cheapest (unless people overstretch themselves).

In case anyone wonders, I couldn't (and can't) even afford to buy a shack in the NYC area. I'm renting a little hole in a prehistoric building that somehow manages to defy the laws the gravity.

Posted by Tootat | March 4, 2008 4:15 PM

For instance, let's say that I rent a similar home that you own, but I pay $400 less a month after property taxes, HOA dues, HOI. At the end of two years, I will have saved an additional $9,600 that you didn't. Now, its very possible that your own has appreciated $10,000 in value, but most likely, I will have come out even or maybe even ahead depending on what market you live in. Especially if you're paying a broker 6% to list your home when you sell it.

Posted by Todd Doug | March 4, 2008 4:16 PM

I can't understand what you're saying, mpowell. The MID benefits anyone who owns or consumes housing, whether homeowner (consumes and owns), renter (consumes), or landlord (owns). Homeownership is superior to renting to the extent that the homeowner is sheltered from taxes on his consumption of housing, whereas the renter is not (landlord pays tax on profits and passes along the cost to renter).
Eliminate the MID for homeowners but not landlords and you've got the screwy situation in which it's cheaper to rent from a landlord or, if you're clever and wealthy, from a sophisticated tax shelter.

Posted by bjk | March 4, 2008 4:19 PM

The homeowner also benefits from the tax-free accumulation of wealth due to price appreciation, and with the recent capital gains exemption on home profits below I think $250,000, nearly all taxes.

Posted by bjk | March 4, 2008 4:26 PM

I'm all for investing in real assets as part of a diversified portfolio, but doing that with your house is kinda a bad idea. With real estate as anything else, there is no sense to taking on diversifiable risk, since there is no expectation of a market return to diversifiable risk. And you have a handy way to diversify your real estate holdings these days, namely REITs and REIT funds. Buying a house is sorta like buying one stock in comparison to a REIT (which is more like a mutual fund) or REIT fund (which is more like a fund of funds).

So, I think it is better to view your house primarily as having value because it is the place you live, and invest in real estate through other means. That said, with the mortgage subsidy it can make sense to buy more house than you strictly speaking need, but I wouldn't overdo that logic.

Posted by DTM | March 4, 2008 5:32 PM

Re: Are Arizona and Florida still looking for more workers? Has the housing slowdown had no effect on employment in AZ/FL/wherever else yet?

I can't speak for AZ, but FL still has a decent job market-- not hot as it was a couple years ago, but decent. Locally we're at 4% unemployment (up from 2.9% in 2006). Of course construction and the mortgage industry (but not necessarily financials in general-- lots of very wealthy retirees with investments to be made) have collapsed, as elsewhere. But we are experiencing a foreign tourism boom courtesy of the low dollar, and also a trade boom with Latin America (also partly due to the dollar). Downside is, Florida wagesr emain quite low by national stnadards, whiel the cost of living, also once quite low, has skyrocketed in this decade. So you can find a job in Florida, but you may have trouble maintaining your standard of living.

Posted by JonF | March 4, 2008 6:40 PM

In the market I live in, it's far more expensive to buy. My $1600/month apt, is equal to a $450,000 condo. Even in just mortgage payments, minus the tax deduction, it's not even close to the same price. Include everything and unless you're seeing 15% a year you aren't making a lot of money.

Consider also that to buy the condo you'd need to put down at least ten percent upfront, plus closing costs, which works out to over two years of rental payments. If you don't have $45,000 in cash sitting around, you have to borrow it (and pay interest on that). That's a lot of capital to tie up, which is why for many people renting is simply the more affordable option.

Posted by Stefan | March 4, 2008 7:43 PM

ngilder and Erik Hanberg have obviously never heard of an amortization schedule.

Does anyone really think more education would help them? Or do these two just prove that a fool and his money are soon parted.

Posted by Jmo | March 4, 2008 8:25 PM

Yeah -- not having been through this myself, how much of the $59,000 Hanberg paid on his mortgage for the first 4.5 years was likely to be interest? Has he paid down any principal yet?

My other big question: to what extent does prioritizing homeownership drive up the prices in famous urban centers and old suburbs, where houses are considered safe investments? Given what's happened to the housing market recently I'd be loath to buy a house in any small markets or exurbs; I'd try to stay in a central district in a major city, where prices may be higher but seem less likely to fall in a crash. But that attitude, widely shared, obviously just helps drive up prices in major city centers from "outrageous" to "insane". If more people were renting, maybe prices would be more evenly distributed?

Posted by brooksfoe | March 4, 2008 8:55 PM

Brooksfoe,

So I just ran the numbers. After 5 years of paying $1000 a month in mortgage payments, of that $60,000 - $53,056.13 is interest.

I would really like to know what ngilder and Erik Hanberg have to say about that.

Posted by Jmo | March 4, 2008 9:34 PM

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Nice blog.

Owning a house has been oversold. There are supposedly 2 million vacant homes at the moment that are not likely to be sold soon. Rent as a result of higher vacancy will be lower than mortgage costs.

However, the benefits for ownership have more to do with security and psychology of having one's place and not being at the beck and call of a landlord.

Personally, I am lucky to know a landlord who shares the house I am in and thus I have both cheap rent and some influence on the use of the property. That was personal involvement in the community over the years. Someone moving frequently would pay more for rent and have little control over right's of use: for instance no dogs, no smoking, no painting, no remodeling, etc.

But the ownership costs also include some corrupt fees that are more than realtor's percentages. Title insurance for example is way overpriced and a corrupt exchange unquestioned by most buyers as the banks and realtors get kickbacks from Title insurance companies..(on average 1000 per transaction in most states...but one state made it a public insurance policy and reduced the privatized corruption to 33 percent of what other state's allow. One case where state owned financial institutions work much better than private ones... no kickbacks and much cheaper rates. Banks have gotten fat and corrupt of the many mandated fees too.

Posted by datadave | March 5, 2008 10:05 AM

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