



Salzman: A New Lease on the American Dream

By Marian Salzman
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I hate being right when dire trends that I forecast happen. In this case, I'm afraid I have been right on the perils of homeownership ever since I forecast a "prime crisis" in 2008. This year is shaping up grimly to be the year that two big American dreams—homeownership and a four-year college education—drop dead and finally get eulogized. (I have already written about my concern that most educations are no longer worth the investment of money or time, so this post is focused on the doom and gloom in real estate.)

Fact: "Renters envy" has become a very real modern phenomenon.

Defined by that fresh and deep pang of jealousy that homeowners feel toward renters and their freedom and flexibility to find new jobs and pick up and move, it's a complete about-face from our sentiments a decade ago, when Americans were snapping up properties with reckless abandon and basking in illusory wealth.

When I bought my last house, in April 2006, the real estate agent told me that property can go in only one direction, and she almost sang out: "Up, up, up!" She wasn't mean-spirited or misinformed; the renovated barn in Fairfield County, Conn., that I was buying had doubled in value plus some in the six years before I finally closed on it after leasing with an option to buy for several months.

With unemployment currently over 8 percent, home foreclosures still rising and house prices down 33 percent since 2006—if I really had

a crystal ball, would I have closed mid-2006, pretty much the height of the market?—more American homeowners saddled with nightmarish mortgages that they can scant afford realize there's very little reason to own a home right now.



Renting is far more appealing. Though houses might be more affordable now than in the last 40 years, thanks to ultralow mortgage rates, homeownership is still expensive relative to rentals. Moody's Analytics calculates a ratio of home prices to yearly rents at 11.3.

And the demand for rentals is newly sky-high; architecture firms report that pent-up demand has them scurrying to build new apartment complexes as fast as they can. Groundbreaking for new housing soared by 9.3 percent in November to the highest level in almost two

years—gains almost entirely seen in structures with five or more units. Plus, Bank of America recently confirmed that it's in the very early stages of considering a mortgage-to-lease program that would allow homeowners in jeopardy of foreclosure to stay in their homes by becoming renters. One financial analyst has suggested that the renting boom will last four or five more years, while another has dubbed this the Year of the Landlord.

Ten years ago—absolute lifetimes ago—no one wanted a landlord.

Back then, I owned a house in West Shokan, N.Y., and kept an apartment in New York City, where I had a strong distrust of my landlord even though he was fair and decent. But the landlord was The Man, and homeownership was independence. At that time, we were buying our own homes not only because we *could*, and because lenders were practically giving away houses, but also because we felt we *should*. We were raised as Americans to believe that we ought to own a home, but now we're raising our children to believe that homeownership is risky, even foolish.

We've since watched the property bubble burst far and wide, especially in the United States, where it blew up biggest and fastest. My doomsday forecast came in a column I penned for Adweek in 2008, in which I said we were then in the throes of not just a subprime crisis, but a scarier prime crisis. Borrowers with good credit and 30-year fixed mortgages—and even people who owned their homes outright—were starting to feel an uncomfortable pinch. But the prime component surfaced because suddenly those of us who had put 15 percent or 20 percent down and paid our bills monthly still felt deeply strained because we suddenly had negative equity, a brand-new phenomenon that was a nightmare in the making for anyone who had counted on home equity to fund college educations, care for extended family or even survive a divorce.

Our great American dream totally fraudulent? That hasn't been easy to swallow. How we work, live and define home continues to shift in 2012—not only dashing our dream but also reframing the U.S. housing industry.

Even as the Obama administration encourages mortgage lenders to refinance loans at lower rates and policymakers introduce plans such as the Home Affordable Modification Program and the Home Affordable Refinance Program, the percentage of people who own their home dropped from 69.2 percent in late 2004 to a 13-year low of 65.9 percent in mid-2011. The percentage of empty rental

properties fell to 9.8 percent in third quarter 2011, from 10.3 percent a year earlier.

But the grass isn't necessarily greener in a rented yard. Renting became so appealing so fast last year that rental costs rose 2.4 percent in 2011, compared with an increase of just 0.6 percent in 2010. And as demand for apartments, townhouses and other rental properties grows ever higher than the supply, a new report from the Center for Housing Policy shows that rising rental costs have created a brand-new housing burden, as about one in four Americans in working households sends more than half their income to their rent or mortgage, in addition to utilities. (Housing costs are generally considered to be affordable at 30 percent or less of income.)

Especially as the economy improves, more jobs are created and new households formed, look to the demand for rent to continue to rise. Americans have enough to worry about—like finding and keeping a job, and dealing with health concerns because of all their worries—that the liquidity and value of a home and even qualifying for a loan will move to the bottom of their list of concerns.

As I told gatherings of the National Association of Realtors, the Houston and Texas apartment associations and the California Association of Realtors Young Professionals Network in recent years—even though it might have been the last thing they wanted to hear—we've got a new, but not necessarily improved, American dream: signing a lease.