

Rigged: playing for high stakes in US property markets

House buyers who gamble on their homes in the USA are treading a thin line between wealth and bankruptcy, argues Ed Dodson

HOMEOWNERSHIP IN THE USA is often seen as a cornerstone of healthy communities. It brings a commitment to place and civic involvement which in more homogeneous communities is culturally embedded.

At the same time, owners of property not living in the community are often more interested in making as much as possible on their investment over maintenance, community involvement or providing quality services to tenants.

One of the key arguments for shifting to a land-only based property tax is that it gives the financial reward to owners who improve their locations to maximise cash flows. Ironically, where advocacy for this change in public policy has hit home is in communities where the overall investment environment has deteriorated so far that civic leaders are desperate to stop the values slipping even further. In these communities homeownership is often not the source of household net worth. Land prices may be low in many of the residential neighbourhoods, but the cost to build new

housing is more than those who are willing to live in these neighbourhoods are prepared to pay.

Desperation, it seems, is required before people do what is truly right for the common good of the community. This is so even if some of the motivation is to penalise those who took the greatest advantage of long-standing dysfunctional public policy. Deep down in the subconscious of those who own homes and businesses in depressed communities, there is almost always the hope that property values will rise. But only a small percentage of property owners realise what they are hoping for is a rise in land prices. Depreciation in the value of the buildings is something accountants worry about.

Even in communities where real estate prices have been falling over a long period of time, many property owners continue to make repairs, and some even make major improvements. But most people who possess financial reserves want to invest where cash flow is strong and appreciation is certain.

All across the US we see the consequences of this rent-seeking behaviour. Even those of us committed to reform, in our private affairs are actively engaged in the dance. We might shy away from the most notorious forms of rent-seeking such as ownership of rundown apartments in inner city neighbourhoods, milking the property for as much money as we can get. But even as homeowners in suburban communities we hope and expect to pocket unearned gains on the sale of the land on which our home sits. This equity can make up a significant part of the assets we rely on

to pay our living expenses once we retire.

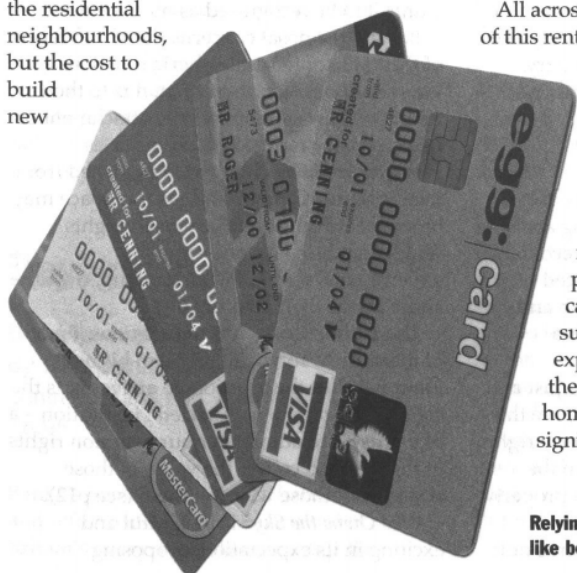
Among minorities, who have far lower rates of homeownership, what community leaders are looking for is a way to make the existing system work. Minority community leaders recognise the damage caused by absentee owners and by land speculation. What they want is for land parcels to be acquired and developed by non-profit-making groups committed to reinvestment of cash generated from commercial properties or apartments. Community Land Trusts are generally organised on roughly the same model, allowing the homeowner to capture some of the uncollected location rent as an incentive to meet requirements such as property maintenance.

For most of us not living in communities structured to restrict rent-seeking, we want to sell for more than we bought and buy in an area that gives us more for our money or allows us to cream off the profit and put it into the stock market.

Americans have been borrowing against housing values to an unimaginable extent. Credit card debt has also skyrocketed to over \$600 billion. A short term out of work can pull a household into a chain of defaults on outstanding debt and into bankruptcy.

We know the game is rigged. A few of us know how it's rigged. The challenge is to convince those who are winning the rent-seeking game that changing the rules is the right thing to do for our common good.

I suspect medical research will eventually confirm rent-seeking is hard-wired into our brains and has become an instinctive rather than a learned behaviour. What might that mean for the idea of humankind as a social animal working with common interest? **L&L**
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Relying on rising land values for income is like betting your future on a game of poker