Is homeownership an obstacle to change?

Analysis: 'Urban theorist' says renters are more nimble

By Matt Carter, Monday, February 23, 2009.

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Incentives for homeownership are hampering the nation's shift from an industrial economy to one based on the exchange of information and ideas, even as workers abandon old industrial centers and migrate to "mega-regions."

So says "urban theorist" Richard Florida, in an Atlantic Monthly article that argues that the key to recovery from the housing bubble and financial crash is to remove homeownership "from its long-privileged place at the center of the U.S. economy."

Incentives for homeownership, whether they be tax breaks or subsidies to keep mortgage rates low, mean less investment in sectors that could drive U.S. growth and exports, such as medical technology, software and alternative energy, Florida argues.

Florida notes the rise of mega-regions -- "systems of multiple cities and their surrounding suburban rings" -- like the "Texas Triangle" of Houston, San Antonio and Dallas. Cities that serve as the financial and commercial core, or hubs, of mega-regions are better positioned to weather the downturn, he says.

Cities and hubs within mega-regions have an economic advantage over other places because they are able to attract highly educated people -- human capital -- and have achieved "super-linear" scale, making them more efficient, innovative and productive.

"The geographic sorting of people by ability and educational attainment ... is unprecedented," Florida says. Places like Seattle, San Francisco, Austin, Raleigh, and Boston have two to three times the concentration of college graduates compared to cities like Akron or Buffalo. In Detroit, where unemployment exceeds 20 percent, only 10 percent of adults have college degrees, he writes.

Florida sees it as a given that there will be an exodus from industrial cities and their suburbs to the mega-regions -- and that homeownership is hindering inevitable change.

He frets that as homeownership rates have risen, Americans have become "less nimble," too often tied to declining regions, and working in jobs that are a poor match for their interests and abilities. In the 1950s and 1960s, Florida says, Americans were nearly twice as likely to move in a given year as they are today.

Not surprisingly, with home prices falling and many homeowners underwater, Florida notes that last year a smaller percentage of Americans moved than in any year since the U.S. Census Bureau started tracking address changes 60 years ago.

He sees an opportunity in the foreclosure crisis to create more opportunities to rent -- perhaps by requiring banks to enter into long-term leases with troubled borrowers.

Florida -- who is director of the Martin Prosperity Institute at the University of Toronto’s Rotman School of Management -- makes some compelling points.

It's hard to argue that the cities of the mega-regions he identifies don't enjoy a competitive advantage over "Rust Belt" cities. But is homeownership incompatible with -- or hindering -- our evolution from a manufacturing-based society to a technological society? Does the need for workers to go where the jobs are mean that they must be renters?

Florida thinks homeownership encourages sprawl by creating demand for low-density suburban developments. He's also worried that demand for homes in the thriving mega-regions is pricing the less educated and less affluent out of the market.

But it's not clear why his solution to the problem -- "liberal zoning and building codes within cities to allow more residential development," plus more mixed-use development in suburbs served by public transit -- precludes homeownership.

Are apartment complexes better than condominiums simply because a condo owner will be "less nimble" than a renter and less willing to move to take advantage of a job opportunity?

If the real estate industry wants to argue that the answer to that question is an emphatic "no," it may need to find ways to make the process of buying, selling and financing a home cheaper, easier and more transparent.

Removing some of the expense and hassle of the real estate transaction itself could help keep homeownership competitive with renting in a highly mobile society, particularly if a healthy balance of rental and for-sale housing can be maintained. If homeowners are moving more often, that could produce higher sales volumes for real estate professionals -- although perhaps with smaller commissions on each transaction.

But reducing transaction costs doesn't solve one potential obstacle to a homeowner's ability to be "nimble": a sudden downturn that leaves them unable to sell their home, or owing more than their property is worth. A worker leaving somewhere like Detroit for a mega-region with a more dynamic economy may find it difficult to extract the equity they thought they had in their home and take it with them, regardless of their transaction costs.

In that respect, Florida may be right when he decries the "creeping rigidity in the labor market" due to the high rate of homeownership as "a bad sign for the economy, particularly in a time when businesses, industries and regions are rising and falling quickly."

Make it easier for working families to buy and sell their homes, though, and you might see more gradual shifts in population as people in places like Detroit see the handwriting on the wall and pull up stakes before there's a crisis.

Whether or not you agree with his conclusion that incentives for homeownership are creating obstacles to moving to an information-and-idea-based economy, Florida's Atlantic piece is worth reading for his assessment of which regions may best weather the storm and which will suffer the most.

Some "second-tier Midwestern cities" like Pittsburgh have been able to reinvent themselves as high-tech centers, Florida says. Pittsburgh's population has shrunk by more than half, but the city had half a century to do so. It remains to be seen whether Detroit will have that luxury.