
The Changing Face of Home Ownership

Is there any
compelling reason to
own a home?

Kevin Hoffmann
Andrew Horowitz

HOROWITZ  COMPANY

May 2009

Why do we feel so compelled to own a home?

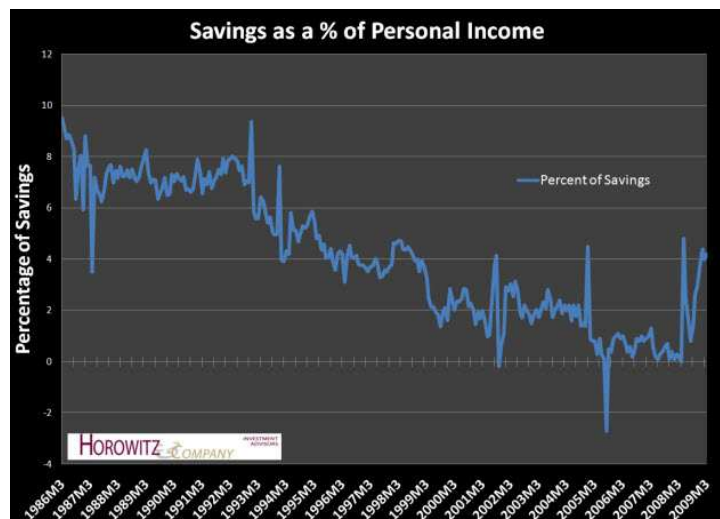
There is a massive and continuing problem within the real estate sector. That is nothing new to many. Unfortunately, we have no one else to blame but ourselves as we knew, deep down that something was not quite right with the lending practices going back as early as 2006. Yet, many of us chose to disregard the warning signs since there was opportunity for personal gain that outweighed the risk. Even if that were not true, who would have wanted to step forward and spoil the party for others?

If you really think about it, most of the economic problems we are experiencing today are a direct result from America's obsession with home ownership. Ever since our ancestors began colonizing and settling near Plymouth Rock people have pursued the right to life, liberty and property. It is the American Dream to own a home, start a family, have a dog, and surround it all with a white picket fence. Unfortunately, the dream morphed into a nightmare that has effectively destroyed our economy.

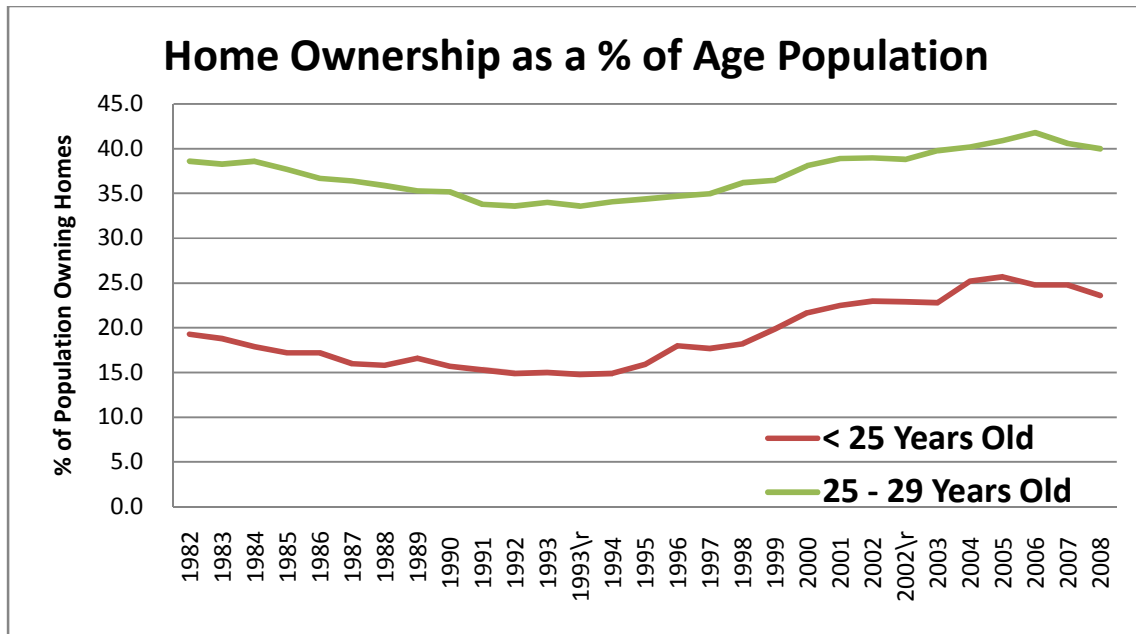
Easy credit helped to propel purchases during the 2002-2007 expansion of both durable and discretionary items. Spending money was easy and it was believed that the equity markets would take care of passively growing savings while consumers supercharged the economy. Mortgage and credit card companies provided an easy way to buy-now-and-pay-later which expanded credit and risky mortgages. The notion was that it was okay to spend now and worry about it later. (An idea that President Obama endorsed in April 2009)

For years, Americans have saved very little compared to other nations. Generally, we spend what we earn and sometimes more than we can afford. The U.S. economy is built on a foundation of consumers as one of the largest components of the total equation. It has been estimated that 70% of our economy is driven by domestic consumption.

Recently, statistics have shown that younger generations have been purchasing homes at an increasing rate. In the chart below you will see the rate of home ownership among U.S. citizens under 25 has increased by over 10% during the past 15 years. The question should be asked if it is really an economically feasible idea, particularly for this age group, to have the large burden of a mortgage payment when they are just getting settled in life.



Let's face it, for many; the early 20's are a period of instability for most young adults. They are confronted with moving away from their parent's, college debt, supporting themselves financially, and taking on many new responsibilities.

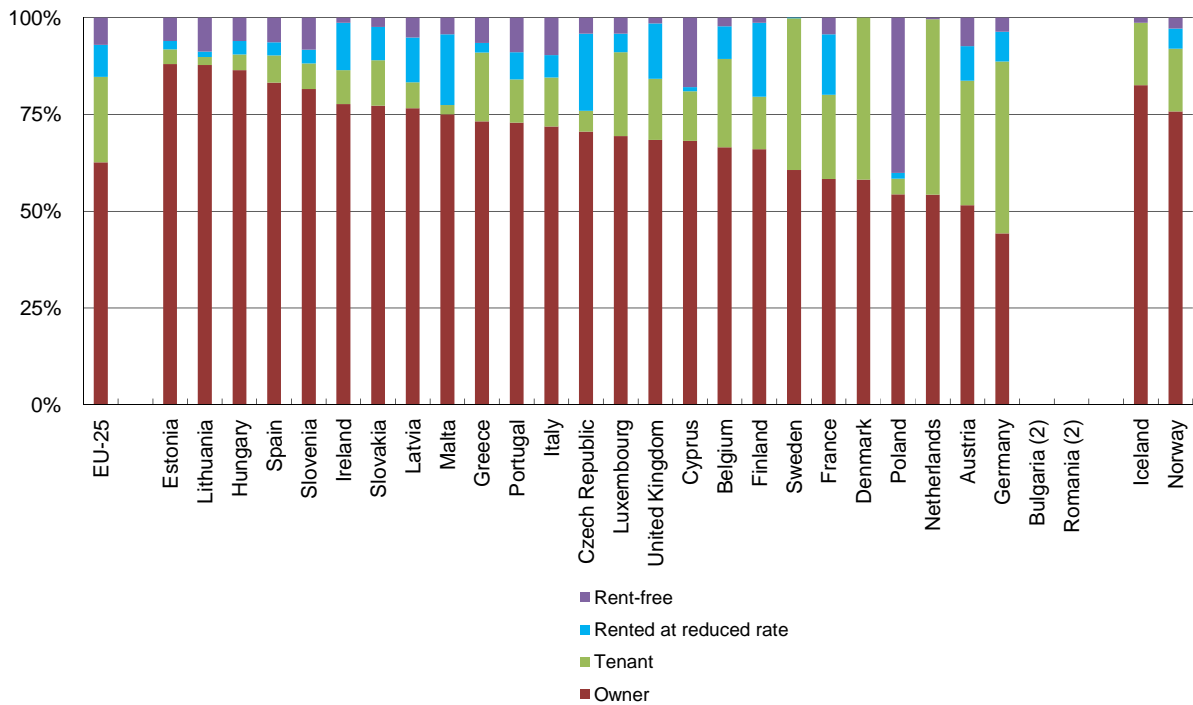


Home ownership has been tied to the American Dream for some time. But, what clues can we take from our neighbors across the pond that may be different from our experience?

In many European cultures there has also been a great desire for home ownership, yet they have proven to be able to postpone the impulse until such time they can buy their home with a reasonable level of reduced leverage. It may seem counterintuitive, but we have also found that the European countries with the highest percentage of home ownership also have the lowest levels of mortgage debt. Europeans also tend to live with their families for a longer period of time in life. This provides them the opportunity to save more early on in order to put a significant down payment on their house. European families will often help out their next of kin in the purchase of their home and usually wait until later on in life when they are financially stable and have cash in hand for a substantial down payment.

In the chart below you will notice that the some of the poorest countries such as Estonia, Lithuania, and Hungary have the highest rate of home ownership where as the some of the wealthier countries such as Germany, Austria, France and the Netherlands have the lowest. This is probably influenced by several factors but is mainly the result of the high cost of housing.

The reason is that home prices in the wealthier countries have skyrocketed to such high levels that it is not feasible for many to own a home without taking on excess debt.



Source: Eurostat (EU-SILC)

There are other problems that home ownership may create that are now often thought about. For example, there is a general lack of mobility that is associated with owning a home. In a world of always-on and always-connected, the need to be in a specific location may not be as important as it once was. Yet, jobs are usually centralized around a region and in a time where jobs are harder to find, some may need to be more flexible with where they live. That will make renting a much better option.

Over the years leverage / borrowing has increasingly taken on a larger role in daily finance and, in particular, for long-term purchases. Paper money has seemingly disappeared into a black hole of loans/credit and electronic transactions. It seems that people may have lost site of the value of cash in hand as credit has taken over.

Horowitz & Company
 1555 NorthPark Drive #102
 Weston, Florida 33326
 954-349-0800
<http://www.horowitzandcompany.com>