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ECONOMIC NEWS UPDATE

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When One Home Just Won't Do

There I was, sitting in a hotel room in Florence, struggling with an article on the crisis in the subprime mortgage market for my weekly column for the on-line edition of The Weekly Standard, rather than taking the more sensible course of reacquainting myself with the artistic marvels of that city. I leave to my readers the question of whether this sacrifice in their interest was worthwhile.

From the hotel to lunch with my wife and her art-expert guide, and a chat about the economy of Italy. It seems that while American banks, urged on by the government, were in the process of lending too much money to people who couldn't afford the houses they were buying, the Italian banking system is in the process of denying mortgages to people who by any standard are very good credit risks, indeed. Take our guide: a good earner about to marry a good-earner, a civil engineer. But neither has the lifetime employment

contract that was once the common arrangement in Italy. They now work in a labor market that is more flexible, more likely to enable Italy to compete in globalized markets as employees no longer cling to jobs in dying industries.

The world has changed, but the Italian banks haven't. To them, this young, hard-working, good-earning couple seems too great a credit risk -- no mortgage unless the parents act as guarantors. If anything is designed to destroy support for more flexible labor markets, this is it.

On to Venice, where another characteristic of the property market becomes obvious -- its globalization at a time when the rich are awash in money and the merely comfortable are benefiting from air fares so low that central London was depopulated over the long Easter weekend (the Brits take off the Friday and Monday surrounding the weekend). Tales of the prices paid for New York and London real estate

are now common currency. Those cities are not alone. In Venice and in Florence once-derelict buildings, and commercial properties, are being converted to condominiums or expensive resident clubs. Elton John is one of many celebrities restoring Venetian palaces to their previous splendor. And the famed glass maker, CVM Pauly, doing business in Venice when it was still a republic and before there was an Italy, has sold its palazzo showroom to real estate developers. Want to be one of 260 lucky people with access to 26 scrumptious apartments when visiting Venice? Shell out €350,000 (almost \$500,000), ante up €14,000 (almost \$20,000) per year, and if space is available, one of the apartments is yours for about five weeks every year.

Where is all of this money coming from? Short answer: no one really knows. There is talk in London of rich Russians showing up with suitcases containing millions of pounds to buy flats as investments, and estates for themselves -- high walls essential. Celebrities such as Madonna hunt for prime properties with a passion and fickleness once reserved for lesser acquisitions -- a new pair of shoes, for example. Chinese investors are said to be acquiring properties throughout Italy. Arabs, for some of whom £100 million is a snip, prowl London and the south of France. Latin Americans, eager to shield their money from grasping leftist politicians, find Florida an attractive place for a bolthole. Many Americans -- investment bankers in love with London life as a place to do business, find it a central location from which most places are in easy reach of their private jets after a hard-day's trading.

That's not all. What we used to call "ordinary people" are finding one

home confining. Some 40% of all homes sold in America last year were to buyers of second homes, mostly baby boomers approaching retirement. Second-home buyers benefiting from low air fares snap up about 100,000 properties in Spain every year, with more and more preferring Jerez to the overcrowded and overpriced Costas. Brits, among them moderately well-off professionals, have always hankered after second homes in France (good food trumps unpalatable politics) and Tuscany, or Chiantishire as it is known in Britain and Italy. They now find their tastes running to sun-dappled residences in Egypt on the Red Sea, or Florida, home of the weak dollar, multiple diversions for their bored teenagers, and sandwiches of a size that make the puny bits of bread-and-something served at their traditional teas seem puny.

Then there are the merely rich, like Don Rumsfeld and Dick Cheney, who have acquired homes on the Eastern Shore of Maryland, while New York's higher flyers pick up second properties in the Hamptons and/or on some ski slope or other.

All of these people have access to credit, or cash flows so large as to make mortgages unnecessary. Meanwhile, the poor in America are struggling with their mortgages, the middle classes in Italy are denied an opportunity to move out of their parents' homes, and Britain's young moan that soaring house prices make it impossible for them to get a foot on the property ladder.

A big social problem? Hardly. Property is not available in infinite quantities and the most convenient and desirable properties are scarcer still. The Soviet Union solved the problem by

assigning the best Moscow apartments and the finest Dachas to Communist Party apparatchiks. The market system solves the scarcity problem differently.

First, those whose incomes are highest, broadly those who contribute the most to the economy's success, get first crack at the best and the poshest. Second, those who have yet to realize the second home of their dreams know they have an opportunity to do just that, especially as the bidding up of prices increases the supply of second homes. Which is why it is so important to make sure that the race goes to the swift, rather than the well-born or the corprocrat with an amiable board, that opportunity remains by and large available to all who would take advantage of it, and that there are no artificial impediments that restrict the flow of credit to the credit-worthy.

That doesn't mean everyone will be able to join that club in Venice, or gaze at a sunset across Chesapeake Bay, but it does mean that more and more couples have an opportunity to end life as the old folks who live on the hill -- or in a valley, or anywhere that they care to call their own.



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