

The US government should buy houses.

Ever since the great financial crisis even the most ardent capitalist has had his faith in laissez faire economics shaken. Economists normally critical of Chinese style capitalism and benevolent dictatorships have come to openly commend some of their features. In a recent comparison between India's democracy and China's pragmatic mercantilism, Byron Wein holds with the latter. So as we abandon our free market dogma, why shouldn't the US government buy some real estate. In what other asset can someone obtain 10 X non recourse leverage. Besides issuing US treasuries.

US Treasuries have been used, via a tortuous route, to finance the purchase of mortgages. Some of these mortgages are defaulted or will default. Rather than wait, the government should foreclose on all defaulted mortgages. It can then sell the collateral into an SPV which we shall call the National Housing Board. The NHB will lease the houses back to the former owners who will now be tenants. They will be charged a potentially subsidized rate of rent.

There are probably a few million homes of inventory. I'm only guessing because I've read so many conflicting reports but 2 – 5 million homes sounds about right.

As prices fall, more foreclosures mean more inventory, triggering more foreclosures resulting in a self reinforcing death spiral. The devaluation of collateral hurts mortgages.

By buying the underlying real estate instead of the mortgages, the government would immediately put a stop to falling prices. How would it pay for these houses? How was it paying to acquire the mortgages supported by dwindling collateral?

By supporting the values of the underlying collateral, one supports the LTV of the mortgages.

The NHB would finance its purchases by raising debt with a guarantee from the government. Some of the inventory will be acquired through foreclosures.

The NHB would receive rental income and pay out financing costs. It would become the one of the largest if not the largest landlord in the world.

It could begin to gradually sell longer leases on its stock of housing. It could plan development on a longer time scale and use its landbank and inventory as a signal to the private sector.

It could establish policies and processes for the rationing and allocation of housing based on the needs of the people.

It would likely never be unwound even once the housing market has stabilized but remain as a supplier of last resort of affordable housing for the lower income while maintaining minimum standards of quality for the entire housing industry.