

Housing Market Needs Empathy

By Mark Stapp, executive director of the Master of Real Estate Development program, W.P. Carey School of Business, Arizona State University, August 21, 2013.

President Barack Obama's speech this month in Phoenix created another heightened public discussion about the housing market. In some respects, it was more of the same conversation about a complex topic that unfortunately, for the most part, has lacked a human element.

Most of the time, the public discussion about the housing market is about how it is improving — or not, in some places — as well as its impact on our economy. It is widely accepted that a recovered and healthy housing market is critical to the entire U.S. economic recovery.

We hear continued calls to reform the housing market, banking, the mortgage process and government-sponsored Fannie Mae and Freddie Mac. We also hear calls to require more private investment in the mortgage market and to prosecute executives involved in mortgage fraud. Many housing advocates remain upset by the foreclosure scandal, and stories swirl about illegal foreclosures and servicers demolishing the wrong homes. Attention is also focused on investors buying up homes, tight supply and tight underwriting standards, making it difficult for homeowners to buy homes, as well as a lack of skilled labor to help meet the increased demand to build new ones.

A Community Bedrock

News reporters parse these aspects and ask categorical questions about the market. However, housing is a complex industry, and the market is simply the manifestation of how the industry is working. It is like a fine watch with many synchronized mechanisms that allow it to function effectively and efficiently.

Unlike other manufacturing industries, the housing industry is also the bedrock of sustainable communities. Housing makes up both a local community and personal assets, representing a significant part of a community's built capital. We need quality, affordable housing for a vibrant local economy.

However, it is difficult to change this industry and rid it of fraud, abuse, greed and inefficiency while still ensuring it can keep originating the high volume of mortgages it now creates. Like a watch, the industry is designed to move only in one direction — creating new mortgages so supply can be absorbed.

This industry does not work well at fixing problems. It is not designed to deal with individuals, their problems and their stories. The system has no empathy and no sympathy. It can't work backward when communities and individuals have problems. Private business exists to make a profit, and profit is made in the creation, at the transaction, not fixing problems that emerge after the creation.

A long-term fix that deals with inevitable economic downturns will mean building empathy into the process, and that will not happen without regulatory involvement that enforces a public purpose and provides an efficient, transparent, equally available system to deal with individuals and communities after the mortgage has been created, packaged, sold, sliced, diced and given to an unimpassioned third party to collect payments.

Avoiding the Next Crisis

The president's speech included a wide array of programs, initiatives and actions. These represent the complexity of the industry and the problem. The entire industry is not just about making money on the creation; it's also about people's lives — and our lives change, circumstances change, and the economy changes. The reason we have a crisis of this magnitude is that the industry does not work backward, so to avoid another crisis, maybe changes should consider how we deal with individuals and how we include an opportunity for empathy throughout the process.

The recession did not just penalize those who took out mortgages they could not afford. The recession was also a sucker punch to many in the middle of life and many toward retirement. Whatever you had in play through the honest work ethic taught from a previous generation all of a sudden was turned on an axis. It was unfamiliar territory and required assistance that was counter to what the industry or our society was designed to provide.

Greed must not be the leading business force for our sustainable future as a global leader. We, as a society, should want to create a healthy, balanced capitalist market to accommodate whatever shifts occur for all concerned to ride the waves of the always changing markets

For more information, call (480) 965-8517, e-mail Mark.Stapp@asu.edu, or visit <http://wpcarey.asu.edu/master-real-estate>.