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Steve Greenhut: Socialism begins at home

Huntington Beach tries its hand at home socialism.



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Another week, another plan for the government to save us. Last week, I wrote about the heads of the Big Three automakers begging for government control and bailouts. This past week, it's a local government that thinks it knows how to manage the home-foreclosure situation better than the private sector, as Huntington Beach waded into the foreclosure "crisis" by voting 4-3 to allow the city to use tax dollars to buy up foreclosed properties, fix them up and sell them on the cheap to low-income people.

Certainly, Huntington Beach city officials do have some experience in the home market. Former Mayor Pam Houchen was convicted and sentenced to three years in prison in 2006 for her role in an illegal condominium conversion scheme, "which involved falsifying documents so that it appeared that small apartment buildings had been converted to stock co-operatives 20 years earlier, making them exempt from city condo-conversion laws," according to a Register story. "As a result, many owners of about 120 illegally converted units have had to pay thousands of dollars to bring the buildings up to city standards and have faced difficulty selling or refinancing their homes. The city also lost affordable housing." Houchen was convicted of using "her pull at City Hall" to assure that the illegal deals went forward.

Another disgraced previous Huntington Beach mayor, Dave Garofalo, resigned from office in 2001 amid a scandal that also involved real estate. As the L.A. Times reported at the time, "The controversy surrounding Garofalo hit a frenzied peak making headlines first for his record of voting on city business involving advertisers, then for landing a coveted spot on a long waiting list for homes built in the city's pricey Holly Seacliff area by a developer who benefited from his votes."

So, yes, city officials have experience in the housing market, but not in a good way. The city's redevelopment agency, which would manage the program and would decide which "low income" people deserved to get a special deal on the city-purchased properties, has lots of experience abusing eminent domain and helped turn a quaint but seedy downtown into an unattractive conglomeration of characterless buildings.

Huntington Beach's real estate market isn't the same as Lancaster's, another city that is delving

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into home socialism. In the high desert, one can find neighborhoods that are virtual ghost towns, where house after house is in foreclosure. Prices may have fallen in Huntington Harbour, and there might be some foreclosed properties, but this is no crisis that demands government ownership of private homes. Not that there's any justification for the numb-skulls in Lancaster to do this, either.

Can you imagine how poorly city redevelopment officials will manage these properties? The Register news staff published an excellent series on Caltrans and its ownership of the properties it has acquired as part of its road-building activities. The agency has bought many more properties than needed, and the result has been the sort of property management one would expect in East Berlin before the fall of the Wall. Caltrans is California's biggest slumlord, which gives a hint of what government property management is like.

Ironically, the Huntington Beach redevelopment agency justifies this process as a means to promote affordable housing. But affordable housing isn't a huge problem these days given the drastic price drops. According to the latest data from the California Association of Realtors, 53 percent of California households, and 43 percent of Orange County households, can afford an entry-level home in their area. In 2006, the numbers were 27 percent and 24 percent, respectively. In other words, the market is fixing the affordability problem, quickly and dramatically.

Redevelopment agencies can't make properties more affordable, although they can perhaps help a handful of politically well-connected people get a special deal or two. The whole redevelopment process is a scam. Such agencies use vast land-use powers and subsidies to push

average folks out of their affordable homes, apartments and businesses, so the properties can be turned over to big developers who build retail and residential projects that bring in a higher rate of tax return. In exchange for this attack on property affordability, state law requires redevelopment agencies to set aside 20 percent of their tax-increment financing (the money that comes in from the new projects above the current level of taxation) for "affordable housing," but affluent cities usually don't want to build low-income housing, so they squander their dollars or ignore the mandates.

Most Americans, even in today's "what has the government done for me lately" world, prefer not to be subsidized and want to make it on their own. Some housing programs, such as in Irvine, create a housing "trust," but anyone who takes these low-priced deals is entering into a devil's bargain. Sure, they get below-market-price housing, but then they can't resell their homes at market rates, but only at a price predetermined by some government bean counter. Over the long haul, homebuyers typically gain equity in their homes and want to be able to build net worth that way, and these trusts make it impossible to do so.

Other cities force developers to build affordable units, but that process only increases the prices for people in the nonsubsidized houses.

Federal intervention in the housing market will lead to a) massive corruption; b) the squandering of untold billions of dollars; c) and the exacerbation of the foreclosure problem. As someone who has shopped for home foreclosures, I can vouch that the market is correcting itself. Home prices have fallen to surprisingly low levels as desperate banks try to unload unwanted inventory. Buyers are snapping them up. But things will slow down as banks wait

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to see if they can tap into some of that free federal money.

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The same thing will take place in Huntington Beach. Owners will hold off in dropping their prices as they wait for government to bail them out. Properties will languish. It will take much longer for the current crop of foreclosures to work their way through the system. Whenever government fixes anything, it hires favored contractors and pays union wages, so the "fix up" dollars won't go very far. Taxpayers will be stuck when HB officials make poor purchase decisions and then spend too much on their remodeling projects.

Government meddling always leads to more corruption, which is why I brought up the two recent mayoral scandals in Huntington Beach. I even forgot another real estate scandal in HB . the time the district attorney prosecuted City Council members for failing to take care of the city's infrastructure of sewer pipes. Who thinks these sewer criminals will be any better at managing the infrastructure on the single-family homes they buy?

As the Register reported, the city will drop \$1 million into the program and will seek yet-to-be-identified state and federal tax dollars. It promises to revitalize neighborhoods and fill city coffers with tax dollars (by getting taxpayers into vacant homes) but really opens up the taxpayer spigot, expands a program based on unidentified funds that will magically flow to the city (anyone in HB notice the state and federal deficits?), gives bureaucrats more power and will probably end up creating slums.

Is this the ideal government program or what?

This originally appeared on the Register's Orange Punch blog.

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