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Renting Prosperity

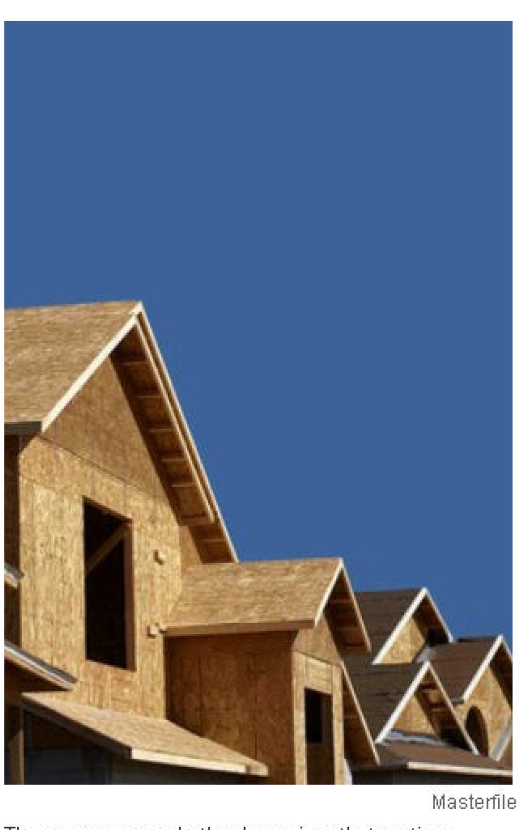
Americans are getting used to the idea of renting the good life, from cars to couture to homes. Daniel Gross explores our shift from a nation of owners to an economy permanently on the move—and how it will lead to the next boom.

By DANIEL GROSS

Photo illustration by The Wall Street Journal

In the American mind, renting has long symbolized striving—striving, that is, well short of achieving. But as we climb our way out of the Great Recession, it seems something has changed.

"The Great Gatsby," the pre-eminent American novel of financial ambition, overextension and downfall, offers a revealing vignette about the great American obsession: real estate. The narrator, Nick Carraway, can't afford to buy in the rarefied Long Island world inhabited by Gatsby, and by Tom and Daisy Buchanan. But he can afford to rent. "When a young man at the office suggested that we take a house together in a commuting town, it sounded like a great idea. He found the house, a weather-beaten cardboard bungalow at eighty a month, but at the last minute the firm ordered him to Washington, and I went out to the country alone," he notes. "I had a view of the water, a partial view of my neighbor's lawn, and the consoling proximity of millionaires—all for eighty dollars a month."



Masterfile

The economy needs the dynamism that renting enables as much as—if not more than—the stability that ownership engenders.

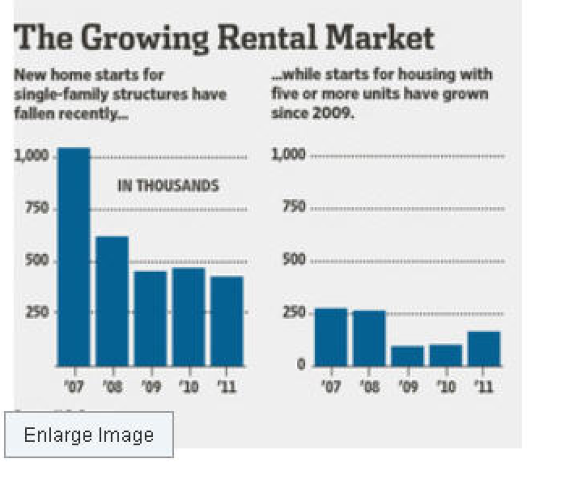
In the American mind, renting has long symbolized striving—striving, that is, well short of achieving. But as we climb our way out of the Great Recession, it seems something has changed. Americans are getting over the idea of owning the American dream; increasingly, they're OK with renting it. Homeownership is on the decline, and home rentership is on the rise. But the trend isn't limited to the housing market. Across the board—for goods ranging from cars to books to clothes—Americans are increasingly acclimating to the idea of giving up the stability of being an owner for the flexibility of being a renter. This may sound like a decline in living standards. But the new realities of our increasingly mobile economy make it more likely that this transition from an Ownership Society to what might be called a Rentership Society, far from being a drag, will unleash a wave of economic efficiency that could fuel the next boom.

From a stone house atop a California mountain to an Italian-inspired lakefront home in Idaho, viewers can vote for WSJ's House of the Week. Stephanos Chen previews on Lunch Break. Photo: Jamey Guy.

While downgrading the place of ownership in the American psyche may sound like a traumatic task, the cold, unsentimental fact about the American dream is that Americans never really owned it in the first place. For the past three decades, especially, consumers haven't so much bought their quality of life as they've borrowed it from banks and credit card companies. And since the Great Recession, Americans have been busy rebuilding their balance sheets and avoiding new financial encumbrances. When American consumers can't—or won't—borrow to purchase the goods and services they've come to consider part of their standard of living, how does the economy get back on its feet?

The answer lies in consumers following the example of corporations—that is, becoming more efficient. The reaction to extended leverage and foolish borrowing isn't to stop consuming and buying; it is to consume and buy more intelligently. That's what the Rentership Society is all about. And it starts at home. Literally. Housing is the biggest single component of consumption in the U.S. economy and the source of much of our present misery. According to the Bureau of Labor Statistics, the typical consumer spends about 32% of his or her budget on shelter. In the last decade, that generally meant borrowing a lot of money to take "ownership" of a home.

The vast mortgage-political-financial complex, for a variety of reasons, valued homeownership as a good in its own right. Democrats saw the extension of credit to people on the lower end of the income scale as a matter of social justice; Republicans thought homeownership would make people more bourgeois. Banks and Wall Street firms salivated at the fees mortgages could generate.



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So, during the boom, the homeownership rate grew steadily, peaking at a record 69% in 2006, according to the Census Bureau. But those gains were short-lived and came at a truly massive cost: a huge mortgage bust, expensive bailouts of Fannie Mae and Freddie Mac, an overhang of millions of foreclosed properties and falling home prices. Ownership-boosters failed to note that homes purchased in 2005 and 2006 with no-money-down, interest-only mortgages weren't really bought. They were simply rented until the "owner" flipped them or walked away from the mortgage. Far from strengthening low-income neighborhoods, this destabilized them through the inevitability of foreclosure.

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In the post-bust climate, renting has emerged as a much more economically efficient way to pay for housing. A one-year lease represents a far less onerous financial obligation than a 30-year mortgage. It's difficult to get into too much financial trouble as a renter. The homeownership rate has fallen from its peak in 2006 to 65.4% today. The foreclosure crisis, which has caused millions of Americans to turn over homes to lenders, is responsible for much of this decline. What's more, given the weak labor market and higher lending standards, more Americans today have a difficult time scraping together the required down payments.

For an increasing number of Americans, though, it simply makes more sense to rent these days. According to Moody's, by late 2011 it was cheaper to rent than to own in 72% of American metropolitan areas, up from 54% a decade ago. And the more people who do it, the more socially acceptable and desirable it becomes. The decline in the ownership rate means that about three million more households rent today than did at the height of the bubble.

It's tempting to view the rise of rentership as an economic step backward. Renters can't build up equity, and they have less control over their living standards than owners. Renting is generally seen as something you do when you've failed as a homeowner or are not yet ready to be one. But I'd argue the rise of rentership is a sign of a system adapting—albeit too slowly—to new realities.

Alamy

Renting has emerged as a much more economically efficient way to pay for housing, argues Daniel Gross.

The U.S. economy needs the dynamism that renting enables as much as—if not more than—it needs the stability that ownership engenders. In the current economy, there are vast gulfs between the employment pictures in different regions and states, from 12% unemployment in Nevada to 3% unemployment in North Dakota. But a steelworker in Buffalo, or an underemployed construction worker in Las Vegas, can't easily take his skills to where they are needed in North Dakota or Wyoming if he's underwater on his mortgage. Economists, in fact, have found that there is frequently a correlation between persistently high local unemployment rates and high levels of homeownership.

Home builders and property owners have caught on to the economic opportunity presented by the move toward rental. Fannie Mae and Freddie Mac have become reluctant owners of more than 200,000 properties thanks to the foreclosure crisis, working through the backlog, one painstaking foreclosure sale at a time. But in February, Fannie Mae said it would put up for sale some 2,490 homes as a package, asking for $321 million. The Wall Street Journal reported that an assortment of real estate companies and private-equity investors were considering making bids. The presumption was that these sophisticated investors would turn the homes into rental properties. No less a sage than Warren Buffett told CNBC in February that he'd love to buy "a couple hundred thousand" single-family homes for rentals.

The depressed home-building industry has also shifted gears to adapt to the new reality. Housing starts for multifamily units have risen sharply since 2009, according to the Census Bureau. In 2011, whereas single-family housing starts fell 9% from the year before, starts of structures with five or more units were up 60%. In the first quarter of 2012, starts of multifamily housing structures were up another 27%, while single-family starts were up only 16.7%.

What's more, the builders of these structures increasingly intend to rent them out. In 2007, only 62% of the housing units in buildings with two or more units were built for rent. In 2009, 84% of the units in such buildings were built to be rented. In 2011, 91% of the units in such structures were aimed at the rental market.

And the rising popularity of rentership is hardly contained to the housing market. Indeed, it has spurred the creation and growth of innovative businesses in a number of other realms—particularly those that cater to America's cash-strapped, credit-wary youth.

Take cars. The Bureau of Labor Statistics says that private transportation—owning and running a car—is the second largest cost for a typical American household, accounting for 16% of expenditures. Factoring in finance costs, depreciation, repairs, insurance, taxes and gas, AAA calculates that an owner of a midsize sedan who drives 15,000 miles a year spends $8,588 a year on his car.

Enter auto-sharing firm Zipcar. Founded in 2000, it grew by focusing on cities and college campuses. It uses information technology to manage its fleet, and control access—people get cards that let them into garages where cars are kept and into the cars themselves. Users in New York pay a $60 annual fee and then $8.75 per hour on weekdays and $13.75 per hour on weekends—no extra charge for gas or insurance or miles. As the U.S. economy contracted, Zipcar went into hyper-growth: from 225,000 members in 2008 to 650,000 members and 9,500 cars in November 2011. Zipcar, which went public in 2011, has had success in the predictable big cities like Boston, New York and San Francisco, but its vehicles can also be found on 350 college campuses and in smaller cities like Providence, R.I., and Portland, Ore. Large rental agencies like Enterprise and Avis have responded by rolling out similar services.

Or take textbooks. College textbooks are, in effect, rental goods. Students buy them at retail, use them for four months, and then resell them to the campus store or a used-book dealer. In 2010, the U.S. college-textbook market was worth about $4.5 billion, according to the American Association of Publishers. But why buy textbooks when you can spend less and rent them? Chegg.com, founded in 2001, has raised more than $200 million in funding and is aiming to displace the college bookstore. An undergrad can buy an economics textbook new for, say, $263. At Chegg.com, she can rent a hard copy of the same book for $94 for 180 days, or an electronic copy for $128 for the same period. As more students come to campus with Kindles, Nooks and other e-readers, the more efficient consumption of college textbooks is likely to grow rapidly.

Rent the Runway, another Rentership Society business, has likewise found a foothold on college campuses. The company was started in 2009 by Harvard Business School classmates Jennifer Hyman and Jennifer Fleiss. Ms. Hyman has called the company "the Netflix for fashion." As with Netflix, customers open accounts and then pay for the temporary use of goods sent to them through the mail. A Thread Social Poppy Sweetheart Dress (retail price: $365) rents for $50. Accessorize with Crislu Crystal Tear Earrings (retail $96, rent for $20). In business for less than two years, Rent the Runway has raised $31 million in venture capital, attracted one million customers and is turning a profit.

All these models involve more sharing than American consumers are typically accustomed to doing. But the culture is changing. Consider how quickly the attitude of consumers toward housing has changed. And I'm not just talking about the rising incidence, popularity and acceptance of home and apartment rental. At the height of the boom, people believed their homes generated cash by serving as a source of home equity credit, or by returning profits when they were sold. Today, not so much.

But thanks to another postrecession business, efficiency-seeking homeowners have come to realize that their homes can still generate cash. Airbnb, founded in August 2008, is dedicated to the promise that lots of people are willing to earn money by renting out a room in their home and that lots of people are willing to save money by crashing in strangers' abodes rather than in motels or hotels.

Only in America could entrepreneurs rapidly transform couch-surfing into a high-tech business worth more than $1 billion in the space of 36 months. With over 100,000 listings available in more than 16,000 cities and 186 countries, it's a real business. It has booked over 5 million nights. In July 2011, Airbnb raised $112 million from venture-capital firms Andreessen Horowitz, DST Global and General Catalyst. But the real value of Airbnb isn't necessarily what profits it brings to investors. Rather, it's the cash it puts into the hands of homeowners. That cash is not enough to turn around the economy. But it's part of a sea change in how people view the true value of their property and how they role of ownership in their lives as a whole.

Finally, perhaps, Americans are absorbing a piece of wisdom not from Gatsby, but from Thoreau: "And when the farmer has got his house, he may not be the richer but the poorer for it, and it be the house that has got him."

—Mr. Gross is economics editor at Yahoo Finance. This essay is adapted from his new book, "Better, Stronger, Faster: The Myth of American Decline and the Rise of a New Economy," which will be published Tuesday by the Free Press.

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