

## Chapter Eleven Exercises

1. A newspaper reporter recently interviewed me about the Southern California real estate market. One of his questions was, “The stock market averages 10% a year. Shouldn’t people rent instead of buying since home prices aren’t going up 10% a year?” How do you think I answered his question?
2. Another of his questions was, “If you are going to buy real estate in an established community, isn’t vacant land a better investment than developed real estate since there is less of it?” How do you think I answered his question?
3. Another of his questions was, “Isn’t it better to be a landlord than a homeowner?” How do you think I answered his question?
4. A local banker recently said that he has a very low-interest variable-rate mortgage on his home, but he is concerned that interest rates may rise: “It will take at least a few years for this economy to return to a level where the Fed can raise rates significantly without killing the economy.” His strategy is to “reduce the principal as fast as I can while my rate is low so that if interest rates go up, at least the principal I am paying the higher rate on will be lower and hence the overall interest paid over the life of the loan will be pretty low—in fact lower than the rate I could get now if I refinanced at a fixed rate.” Explain why you either agree or disagree with this strategy.
5. In 1986, a columnist bemoaned the tax breaks that make real estate more attractive than other investments: “In general, generous tax breaks for rental and owner-occupied housing have not served to make housing more affordable or to increase the supply. Most of the value of these breaks has simply been capitalized into higher prices for land and existing structures.” Provide a logically persuasive reason why higher market prices will influence housing construction.