

When it comes to housing policy, California politicians keep rushing down every dead end they can find rather than simply embracing the obvious. Their latest scheme, though well-intentioned, may be hard to top.

Last week, legislative Democrats in the Golden State proposed a new program intended to boost homeownership as a means of wealth creation, particularly among Blacks and Hispanics. “The California Dream For All first-time homebuyer program aims to address historical and economic barriers to homeownership,” a primer by Senate Democrats explains, “with a new way for Californians to buy a first home and get a foothold in the middle class and to begin to build family wealth.”

The proposal seeks to soften the financial barriers to housing purchases in a state where housing prices have spiked. It would create a fund — seeded with millions in federal “pandemic” relief money — to subsidize first-time buyers who meet certain eligibility criteria.

In essence, the buyers would be going in with “silent partner” investors in the fund, which would own up to 45 percent of the property. As the Democrats see it, a \$400,000 home would thus cost the new buyer just \$220,000, with the state fund throwing in the other \$180,000. Investors could liquidate their shares at any time, and the fund’s value would rise and fall based on the equity of the properties it holds. The homebuyer would be responsible for taxes, insurance, maintenance and other associated costs.

The idea, state Democrats argue, “can dramatically slash the cost of first-time homes for eligible home buyers.” It all sounds so simple. What could possibly go wrong?

In fact, this proposal is likely to exacerbate the very problem it purports to solve. The program provides an incentive for sellers to inflate prices knowing that certain buyers don’t have to worry about covering the true purchase price. The real-world application can be seen in higher education costs, which for decades have skyrocketed in part because of an excess of federal student aid. As more taxpayer money poured into the system, colleges responded by boosting tuition far in excess of inflation.

As Christine Britschgi of reason.com notes, “The program can’t attract investors, and new homeowners can’t build wealth through it, unless home prices continually rise.” Isn’t that California’s problem in the first place?

California already has plenty of programs designed to encourage homeownership. That’s not the problem. The problem is that state and local politicians have used their regulatory authority to make it impossible for housing stock to keep up with demand. The current housing crisis has been an entirely predictable result and won’t go away until California does something radical and makes it easier for developers to build more homes.