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Commentary on HOA property values in Regulation article

What Are Private Governments Worth?, Amanda Agan & Alexander Tabarrok, *Regulation*, Cato Institute, Vol. 28, No. 3, Fall 2005

This is a very insightful question to ask and to answer, raising important public policy issues and providing direction for policy makers. To paraphrase, "Do the property value benefits of HOAs measure up to the protection and support received by state governments?" What is the government's interest in promoting and encouraging these private governments?

My first reaction to the article is its premise: HOAs are governments and they are private governments at that. Second, the data taken from Prince William County, Virginia shows quite clearly that America is indeed a country of private governments, or as I have referred to them, as principalities, operating with their own constitutions. Why do the states allow this proliferation of private, authoritarian governments at the expense of those freedoms and liberties protected by the Bill of Rights and the Fourteenth Amendment? Hopefully, this study will help answer that question.

Faced with the initial result that homes in an HOA had lower values than homes not in an HOA, the authors continued to seek an answer to support the widespread, but unsubstantiated, belief that HOAs must increase property values as promoted by Community Associations Institute, developers and Realtors. They logically choose three separate factors that should affect the value of a home: age of the home, type of house and zip code or location, and then these factors plus the smaller subdivision in which the home is located.

Without going into details, the authors resort to "increases" in house values over, I presume, prior sales, leading to a 5.1% to 6.1% increase for the "HOA membership" factor (Table 2). Yet, in this same table we see that increases in the range of 10% to 13% for "baths", "fireplaces" and "basements" factors in each of the three studies.

Furthermore, the authors make a generalized statement that "In an efficient market" the additional costs of HOA living are factored into the choice of paying for the HOA. This statement does not reflect reality where the promoters of HOAs and state governments have repeatedly failed to provide warnings and information in order for the home buyer to make a fully informed, rational decision; and for the fact that there is lack of choice in housing. The authors show that there are almost 12,000 HOA units in the County and just over 1,000 non-HOA units. Nor do they mention that over 50% of all new housing is in an HOA subdivision.

While, indeed, if we accept that housing increases are occurring in general, 5% is not something to get excited about since almost all new housing is with an HOA. Their results show that builders can provide the same style of housing -- the baths, fireplaces, basements -- and that the buyer can expect greater increases than just 5%.

Sadly, the authors do not answer the question as to whether or not a 5% increase in home values warrants the loss of individual liberties in authoritarian private governments, especially when property values can exceed this 5% increase without an HOA and all its problems.

Public policy makers must reflect on these "new truths" and decide what America is all about: for increasing property values or for those values and beliefs that made America great.

http://cato.org/pubs/regulation/regulation_currentissue.html