Journal of Property Investment & Fi

Housing Affordability – Can we put the housing wealth genie back in the bottle?

Journal:	*Journal of Property Investment & Finance*
Manuscript ID	JPIF-10-2019-0135
Manuscript Type:	Editorial (EAB only)

We can certainly argue that the wish to get more people into home ownership has to a certain extent been granted. As a result for the vast majority of homeowners, has been an exchange in the freedoms of homeownership with the shackles of debt. With more recent homeowners relative to those half a century ago being burdened by more (and more) debt. What is of more consequence is an exponential rise in house prices and home affordability problems. These trends show limited signs of being reversed anytime soon. What remains to be seen is the impact on serviceability of this debt should interest rates rise from these unprecedented low levels. For now, the housing wealth genie is now out of the bottle.

In many western countries, housing affordability has decreased in an unprecedented manner in the past decade, led by increases in house prices that have outstripped wage growth. There has been exponential house price growth and capital accumulation in housing since the turn of the century (Harvey, 2012). There are many contributors to this increase on both the demand and supply sides. There have been big issues of demography (net domestic and foreign migration), income distribution (jobs), housing supply (not enough), tenure (imbalanced), and an important long history of financial deregulation (Bramley, 1994).

The impact of this, while fairly ubiquitous, is not evenly distributed. It has resulted in various of inequalities at a spatial and socio-demographic level. The largest impact can be seen on those households looking to enter or re-enter home ownership, and those for which the cost of servicing debt represents a significant burden. Lower relative income growth (to house prices) has affected the ability to qualify for and service a higher value mortgage (Jewkes and Delgagillo, 2010)

There is an inter-generational impact, such as delaying the age at which children become independent of their parents financially and physically, with children choosing to remain in the family home for longer (to save for home ownership), and the increasing need for parents sharing the equity in the family home to leverage children into ownership. These scenarios can both have negative implications for the financial and social wellbeing of the family unit.

For others, the path to home ownership is increasingly out of reach, and people are taking the (diminished) alternative tenure 'choice' into the rented sector. In many countries, this is putting additional pressure on the rental sectors, requiring investment into the sector, both of capital and expertise. The rental sector is now needing to provide for long-term rental tenure in addition to the traditional stepping-stone-to-ownership that it once was.

It is broadly accepted that housing is more than a private good, that can be financialised by the market without recourse to social or political will. The United Nations Special Rapporteur on Housing has pointed out adequate housing is a basic human right. Further, that adequate housing should be treated as a social good in line with the needs of the most vulnerable people in the population, rather than an investment vehicle for the well off. It can be further argued that the social cohesion associated with mixed communities and good spatial linkages (especially with employment), are positive externalities with a social-good element.

The wider role of housing within the social fabric appears to have lost political support in a neoliberal era. Increasingly there has been a drift from housing need via public or social housing to a more market orientated policy focus of housing affordability (Whitehead, 1991). Liberal bank lending policies combined with good prospects of capital gain have made investment in rental housing an attractive proposition for those with access to the finance, whether capital or debt. There is increasing discourse (though limited empirics) suggesting that the pricing of houses is influenced by investment motives rather than the utility of owner-occupation. Put simply, housing appears to be overpriced for owner-occupation but still in demand as a financial asset for investment.

The increased interrelationships between local housing markets and international financial markets has been described by several authors as housing financialisation (Fernandez and Aalbers, 2017). Instead of treating housing simply as place to live, housing is now often viewed as a commodity that can be traded, borrowed against and used as a way of accumulating wealth. Policy and financial markets encouraging low interest rates to help the economy, has fuelled the ability for borrow and stimulate demand in the housing market. However this is a difficult dependency to break without significant economic implications in the short term. It will most likely require several generations to roll back the direction of travel.

Furthermore, many homeowners (especially first home buyers) and property investors are borrowing money on a mortgage from local lending institutions to support property purchases. This is nothing new. What is relatively new are the complex financial instruments and securitised masking of risk that can now be associated with property assets, the unravelling of which precipitated the GFC. The securitisation of property debt represents a further flow of capital across international borders. The freeing up of the international capital that can flow into housing markets, in conjunction with high-net-worth migration has encouraged more property investors to enter the market. These investors compete with occupiers for homes, and prices increases result.

Perhaps the next step in global housing financialisation will occur in the build-to-rent sector in response to growing demand for that tenure (the 'diminished choice' mentioned earlier) amidst housing affordability declines. In the private sector, investment funds (both domestic and international) looking for diversification and yield may well enter the emerging sectors of this market, such as the UK and Australasia. We may also see a continued neoliberal trend in the social housing sector, as governments look to the private sector for expertise and capital to meet the burgeoning demand.

We can see that production is organized and managed on a global scale, tying previously independent local economies into the global marketplace. There has been a growth of global corporations and a commensurate decline in local industry. We have seen the dominance of services in advanced economies and decline of goods manufacture because of high wages, environmental controls, and rapid technological change. Much of global production now occurs in the developing nations. This globalisation, separating production from markets has seen an increase in the geographic flow of labour and capital. Migration is an often-cited cause of house price increases, where the supply of new stock is unable to satisfy demand. This has resulted in a bimodal distribution of job opportunities in developed nations - higher paid managerial and professional jobs, and lower paid semi-skilled or unskilled jobs. This is reflected in bimodal housing demand, for example, Hong Kong, Vancouver, Toronto where high priced condominiums are being built simultaneously with smaller, more affordable units (Jowsey, 2011).

These global forces are also in play in the residential property markets. With finance and investment capital increasingly mobile, it is possible for investors to achieve higher returns, to widen their investment opportunities, and to diversify internationally as a return strategy or risk reduction. The question is whether sentiments of nationalism, a growing political theme in Europe and America and elsewhere will see residential buyers and sellers prefer to deal with local agents for reasons of cost, knowledge and proximity. The 'local is best' preference for services may stall the trend towards globalisation.

Is the financialisation and pricing of housing markets part of a wider sea-change of inter-connected global trends? Is housing affordability going to become even more problematic in the future? Perhaps the answers are more structural than cyclical, and there is no return to ‘the ways things were’. The housing wealth genie can never be put back into the bottle.

References:

Bramley, G. (1994). An affordability crisis in British housing: Dimensions, causes and policy impact. Housing Studies, 9(1), 103–124.

Harvey, D. (2012). Rebel cities: From the right to the city to the urban revolution. London: Verso Books.

Jewkes, M., & Delgadillo, L. (2010). Weaknesses of housing affordability indices used by practitioners. Journal of Financial Counseling and Planning, 21(1).

Jowsey, E. (2011). Chapter 18- International Real Estate Markets. in Jowsey, E. (2011). Real Estate Economics. Palgrave Macmillan

Whitehead, C. M. (1991). From need to affordability: An analysis of UK housing objectives. Urban Studies, 28(6), 871–887.