Choice and responsibility

At the time of writing the UK is witnessing a Conservative Party leadership contest, following which the winner will succeed Theresa May as Prime Minister. The twists and turns of that contest are beyond the scope of Housing Finance International [HFI] to report on; nevertheless, on occasion the debate has strayed briefly beyond the BREXIT battlefield. Last week, leadership hopeful and Housing and Communities Secretary, James Brokenshire, announced that he was dropping out of the race. In the course of his speech he proposed that would-be first-time buyers should be able to use their pension funds to place a deposit on a home:

"It seems rather obtuse that we would deny people the opportunity to do this, given that we know those who own their own home by retirement are on average wealthier and do not have the burden of the largest expense in retirement – accommodation. And it is, after all, their money."[1]

Brokenshire is not the first politician to make this suggestion, but his proposal nevertheless raises important issues, particularly at a time when a number of housing markets around the globe, including that of the UK, are looking distinctly unsettled.

In the UK at least, it is well-established that large numbers of people do not save enough towards their pensions while they are of working age. With the demise of defined benefit pension schemes, the position of those who do save is frequently one of relative disadvantage compared to the previous generation. The idea that this situation should be made worse by encouraging people to further reduce their pension prospects in favour of homeownership has caused widespread concern. If house prices are unaffordable unless individuals erode their pension prospects, then shouldn't the Government be tackling unaffordability (essentially a question of housing supply in the UK) rather than exacerbating poor pension provision? In addition, many have pointed out that adding an additional source of demand without tackling housing supply issues is likely to feed through into still higher house prices.

Whatever the merits of Brokenshire's proposal, it does rest on one important pre-supposition: that house prices will always rise over the medium term and that a house will always be an appreciating and liquid asset; a one-way bet in investment terms, safe enough to substitute for a conventional pension fund. Over a decade on from the onset of the Global Finance Crisis [GFC] is that a reasonable assumption? Over the past six months writers in HFI have alluded to instability and/or falling house prices in a number of markets including Canada, the UK, Malaysia, Australia and Japan. There has always been a balance to be struck between buying a home as a place to live in and enjoy, and buying a home as an investment which is expected to appreciate in a situation where there is strong pressure not to miss out. It is possible for that balance to tip too far in one direction with unacceptable consequences for both individuals and the stability of markets? To what extent does government have a responsibility to ensure that smaller investors are protected and that their risks are spread across more than one asset and/or sector?

The above reflections lead us straight to our first article in this issue, House prices plummet in Sydney: *The financialisation of housing comes unstuck*, by Alan Morris. In his hard-hitting analysis Morris examines the problems caused by what he describes as the "financialisation" of housing, involving the unbridled pursuit of housing investment as a means to accumulate assets. This led to a property market that has been described as "frenzied" and which at its peak made Sydney the second most expensive city in the World after Hong Kong. Morris describes how both domestic and overseas (notably Chinese) investors pushed up prices dramatically during the period up to 2017, when the regulators stepped in. Regulatory action has since led to significant price falls and a strong downturn in investor activity.

Our second article shifts the focus from private to public intervention and from homeownership to renting. Seung Dong You has contributed a masterful overview of public rental housing in his article *Public Rental Housing in Korea: Issues and Policy Implications*. Mr You traces the development of public rental housing from the desperate housing shortage at the end of the Korean War in 1953 to the present. He shows how a series of ambitious Government programmes has pushed up the number of units particularly in recent years; public rental housing as a percentage of the housing stock rose from 2.8% in 2007 to 6.8% in 2016. The definition of "public rented" is quite wide in Korea with many units managed by private organisations. Units are also let under different conditions depending on the type of programme they were constructed under.

In our last issue HFI initiated a series of occasional articles on community-led housing. Such housing, which can be seen in many countries, involves construction, ownership and management of homes being controlled or strongly influenced by the local communities who will use them. Community-led housing aims to provide housing that is relevant to the needs of local communities, remains affordable over the long-term and is of high quality. The first of two articles in this issue covering community-led housing is a collective piece by the residents of Lilac Grove, a community in Leeds in the UK which runs as a mutual homeownership society. Entitled *Mutual home ownership: A route for permanently affordable community-led housing*, this reflective and perceptive article shows how mutual homeownership involves residents owning shares in the assets of the community and paying 35% of their net household income each month. The model circumvents rapidly rising house prices to secure continuing affordability and ensures that residents can deal with a sudden drop in income.

In our second article on community-led housing, *Community-Led Shared Equity Housing in the U.K. and in the U.S. – Lessons Shared Across the Pond*, Eliza Platts-Mills compares the different ways in which affordability for the long-term is secured on both sides of the Atlantic with particular reference to Community Land Trusts, which are well-established in the USA and have recently developed a significant presence in the UK. As well as looking at land availability and the need for advice and support, Ms Platts-Mills goes on to examine funding issues, including the failure of many mainstream mortgage lenders to embrace the homeownership models used by community-led groups. This important article offers some timely challenges to lenders and financial advisers.

Our final main article returns to the question of housing as an investment bringing both

[1] The Guardian 3rd June 2019 https://www.theguardian.com/society/2019/jun/03/brokenshire-criticised-for-suggesting-first-time-buyers-dip-into-pension

financial and social returns to homeowners. In their study of Bariga, a housing-submarket in Lagos, Nigeria, Basirat Oyalowo and colleagues recognise that if financial and social returns are to be fully realised then continuous improvement (including necessary maintenance and repair) to existing owner-occupied homes is as important as acquisition. The authors focus on the importance of housing finance as a key determinant in the ability to realise the goals of housing investment and point out that the conditions under which housing finance is made available for house purchase may also constrain the ability of households to undertake improvements. Their study utilises questionnaires to both financial institutions and homeowners. These collected data on both housing acquisition and on improvements. The analysis of the data produces a number of significant and fascinating insights.

All in all, this a wide-ranging and very relevant issue of HFI: we hope you enjoy it.

Andrew Heywood

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Contributors' biographies

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Andrew Heywood is an independent consultant specialising in research and analysis of housing and mortgage markets, regulation and policy with both a UK and international focus. He is a visiting fellow of the Cambridge Centre for Housing and Planning Research [CCHPR] and a research fellow with the Smith Institute. He is also Editor of the journal Housing Finance International. Andrew writes for a number of publications on housing and lending issues and publishes reports commissioned by a wide range of clients.
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Alan Morris is a research professor at the Institute for Public Policy and Governance at the University of Technology Sydney. He works mainly in the areas of housing and marginality. His most recent book, The Australian Dream: Housing Experiences of Older Australians, compares the impact of housing tenure on the everyday lives of older Australians dependent solely or primarily on the government age pension for their income.

Oluwaseun Muraina is an Assistant Lecturer in the department of Estate Management, University of Lagos, Nigeria. Her research interest lies in providing solutions to issues associated with real estate investments, finance and structure of property markets. She has conducted researches in the areas of real estate investments and housing economics.

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Eliza Platts-Mills is an affordable housing and community development attorney, teacher, and writer. She lives in London and works for the National Community Land Trust Network as Manager of the Community Led Housing National Advice Centre. From 2008 to 2018, she was a Clinical Professor at the University of Texas School of Law, where she and her law students provided pro bono legal services to Guadalupe Neighborhood Development Counsel with its Community Land Trust program. From 2006 to 2008, she was a Clinical Fellow with the Affordable Housing and Community Development Clinic at Georgetown University Law Center, where she and her students provided pro bono legal services to low-income tenant organizations in the purchase and rehabilitation of their multi-family apartment buildings under the District of Columbia's Tenant Opportunity to Purchase Act and the conversion of the buildings to limited equity cooperatives.

Residents of Lilac Grove – The article Mutual home ownership: A route for permanently affordable community-led housing is a distillation of reflections, comments and written material produced by the numerous residents of lilac Grove over the last six years. Particular input has been provided by the current and previous treasurer and secretary teams. It has been coordinated by Paul Chatterton who is a resident and academic in the school of geography at the University of Leeds.
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