VOLUME XV No. 158 | F R I D A Y | August 23, 2013

Part II

SO YOU WANT TO OWN A HOME OF YOUR OWN, DO YOU ?

There appears to be, among many of the select, appointed individuals, now employed by the Hongkong Government, some in very high places, the ingrained idea that policies to promote residents to own their homes will help, dramatically, to increase the supply of finished flats; and, this will tend bring a great deal more satisfaction and social harmony to lower-income families.

If the Hongkong Government could guarantee that the current, low-interest rates, advertised by banks and lending institutions, will remain at today's relatively low levels, this Administration could well be correct.

It would behoove would-be, home-owners, however, not to try to spit into a strong wind – because their spittle will come flying back into their faces much faster than the spitters' attempts to outpace the wind.

In Switzerland, the majority of residents prefer to rent their homes rather than to buy them, regardless of whether or not they have the wherewithal to afford the price of new home, be it a stand-alone chalet or a flat in a town.

Switzerland is a rich country, compared with many other European countries, East and West, but there is no suggestion that the Swiss renters are less happy than, say, renters in the richest country of Western Europe: Germany.

There is no known correlation, anywhere in the world, between the level of home-ownership and housing satisfaction, generally.

That being the case, it would be interesting to learn how the Hongkong Government can make the definitive statement to the effect that increasing the supply of finished flats will lead to greater happiness, especially among the lower-income families.

Case in point:

> After the Hongkong property crash in 2008, many of the formerly proud purchasers of flats in the Government's home-ownership scheme complained bitterly that the Government had not exercised the power of vision over the horrors that had befallen them.
>
> The gist of the complaint was that the market value of the home-ownership scheme flats had fallen in line with the amount of the price erosion of other flats in the private sector.
>
> The once, proud purchasers of units in the home-ownership scheme had not been apprised of the potentiality of a price fall in the market value of their units: These families mistaken thought that they were immune to property market forces since their flats had been purchased from the Government.

But the complaints did not stop at this point because these families still had to pay the monthly mortgage payments on their flats, the monthly payments, having been based on the much-higher, market value of their flats of some years earlier.

Many of these home-owners had lost their jobs, for no fault of their own, and they, suddenly, found themselves unable to meet the financial obligations to those lending institutions that had been only too happy, in days of yore, to afford them relatively large loans, the only collateral on the loans, being the home-owners' equity of their flats.

<u>Asset or Liability?</u>

The biggest single asset for many families, especially in the Western World, is the home in which they live, be it a flat or a freestanding house.

For the most part, societies of the West and, to some extent, even in the East, lean toward encouraging lower-to-middle-income families to invest in bricks and mortar.

This has been embraced by a large proportion of these societies and, in most cases, families have gone to their friendly bankers or other lending organisations in order to take on debt that they can ill afford, relative to their disposable income, in order to buy their new homes.

By leveraging up their savings, these same families run the risk of losing everything when an economic downturn comes calling: They have no fall back position.

Overinvesting in bricks and mortar can be a losing proposition for many a prospective home-owner, especially for first-time, home-owners.

And, taken to extremes, such situations can have a direct effect, sometimes debilitating, on an economy as a whole as the former Chairman of the US Federal Reserve, Dr Alan Greenspan, stated on numerous occasions.

Dr Alan Greenspan warned that as long as the effects of the US housing crisis of 2006 and 2007 overhung the largest, single economy of the world, it was difficult, if not impossible, for the economy to extricate itself out of the financial mire.

As has been well documented, the US housing crisis brought down banks – Bear Stearns Company Incorporated, Lehman Brothers Holdings Incorporated, and Citigroup, just to name some of the biggest losers – leading to the US Government, being forced to inject $US700 billion into the country's banking industry.

It, also, brought the world's largest insurance conglomerate, American International Group Incorporated, popularly known as AIG, to its proverbial knees.

And it bankrupted many well-established companies and, in its wake, nearly destroyed the entire, US motor-vehicle industry, leaving parts of Detroit, Michigan, looking like a desert as families just left their once-beloved homes to gather rust and dust and, eventually, to collapse, following the breadwinners, having been given pink slips by the Big Three automotive companies – Ford, General Motors and Chrysler.

Eventually, as had been forecast, down the lane came The Great Recession of the 21st Century, a recession that lasted for about 18 months, from December 2007 until June of 2009.

This Great Recession of 2007-2009 was directly the result of the US housing bubble that, when it burst, housing-related assets, whose values had declined to such a level as to be, in many cases, worthless, helped to start financial fires elsewhere, fires that spread far afield and resulted in the making of a global financial crisis.

Could this situation happen again?

Yes!

<u>Beware of Booms!</u>

Housing booms and busts tend to be among the biggest *'viruses'* to affect economies, wreaking havoc as they cut swaths through what was once thought to be well-regulated, political administrations.

Housing bubbles can be created, inter alia, by stimulus plans, proliferated by seemingly well-meaning (but often poorly informed) government servants and/or law-makers, regulatory measures that are put in place in order to encourage low-income families to be in a position to own homes.

Governments have been known to offer subsidies to lending organisations in order to encourage them to grant loans to qualified applicants, wanting to purchase their own homes, and, by so doing, permitting inflation to obtain a firm foothold in an economy.

Yes, The Great Recession of the US of 2006-2007 could come to pass, again.

For a government to pursue a policy that, directly or indirectly, encourages undue speculation in bricks and mortar, it is a foundation brick for economic disaster.

This is because, among other things, greed is never-ending and the property speculator, who makes a profit on one transaction, will go on and on until, like the gambler in Macau, he will, if he speculates long enough, lose everything.

Gambling houses promote that element of greed in their customers, a sickness that we, all, innately possess to some degree, and preying on that *'sickness'*, gambling houses relieve customers of their money as quickly and politely as possible.

Purchasing a new home at a time that the principle breadwinner of a family can only just meet the monthly mortgage payments, based on today's historically low interest rates, is more of a gamble than securing his family's position.

-- E N D --