AS SAFE AS HOUSES, NOT

PROPERTY JOURNALISM HELPED FOSTER AN UNSHAKEABLE, IRRATIONAL AND ULTIMATELY INCORRECT FAITH IN THE EVER-INCREASING VALUE OF HOMES, UNDOUBTEDLY ONE OF THE PRECIPITATORS OF THE GLOBAL FINANCIAL CRISIS, WRITES REG RUMNEY

At the centre of the credit crunch was an implosion in the housing market, the one thing that most people consider to be the safest of investments, safe as houses perhaps. And the role of the news media in creating what could be called a global housing price bubble is worth a long, hard look.

Most of the spotlight just after the failure of Lehman Brothers intensified the crisis fell on the problems with so-called subprime loans, a form of risky lending that led to widespread home loan defaults.

But behind the collapse of that particular unwise practice of lending money to people who should not have qualified for a home was a more general irrationality. This is described at length by economist Robert Shiller in the 2005 edition of a book that came closer, perhaps, than anyone else to anticipating the crisis, *Irrational Exuberance*.

Shiller presciently included in that edition an examination of the at-the-time unpricked housing bubble, as well as the bubble in the stock market. He makes the point that in the US, general public attention to housing as an investment is a recent phenomenon, beginning in the last decades of the 20th century, part of "our increasing public commitment to market solutions to economic problems, rather than interventions and controls".

The same could be said about South Africa, where rent control was also more in the news before the 1970s than house prices.

Shiller does not blame the news media, arguing that news stories "rarely have a simple, predictable effect on the market. Indeed, in some respects they have less impact than is commonly believed." He adds that the news media actively shape "public attention and categories of thought", and create the environment within which speculative market events are played out.

To be sure, there is something in Shiller's observations. Yet his views almost absolve bad journalism, because he does not seem to allow that there could be a role for critical journalism in changing the cultural context.

By contrast, David Manning in an article in November 2008 in the unashamedly left-wing *Coldtype Reader,* sees poor reporting in the local print and online news media as a relentless propaganda war waged on behalf of the real estate industry.

"The fraudulent mythology of never-ending property value increase has been perpetuated by the media for over a decade, with few notable exceptions."

He finds a powerful symbiosis between the Irish news media and property values: "a relationship that put newspapers and media outlets at the virtual helm of the property boom Titanic".

US investigative journalist Danny Schechter is just as condemnatory of vested interest in the news media leading to a failure to warn about predatory lending in the US housing market. Quoted on editorsweblog.org in November last year, he noted: "The newspaper industry is the marketing arm of the real estate industry. In some cities you actually had newspapers getting a piece of the action of sales through the ads they generated." The result, he says, is that there was little real scrutiny of corrupt practices in neighbourhoods.

The role that property journalists play in our own housing market cannot be said to be that dramatic. I draw here on my examination in the past two years of local and national newspapers, since there seems to be little reporting of house prices in the broadcast media.

The South African housing boom itself has been less of a bubble. High interest rates in the late 1990s deflated the rising post-apartheid middle-class housing market for a while, and the lower end of the property market has been distorted, as a market, by apartheid's legacy of racial separation and a steady supply of state-supplied homes.

Yet even in South Africa housing prices have been rising at a rate that, in retrospect, has been out of kilter with the earnings abilities of even better-off South Africans. I remember my own shock at the statement in a financial magazine blithely stating that if you did not own a house worth at least R1-million you were living in the wrong suburb.

What role have our news media, specifically newspapers and magazines, played? According to Shiller, the news media propagate "speculative price movements through their efforts to make news interesting to their audience".

Some property reporting in South Africa apparently strives to do the opposite, sometimes straying from the dull into the ridiculous. An example is an article in a property supplement highlighting the qualities of Benoni as "the city of lakes" and suggests investors snap up value-for-money properties there. Benoni must have its charms but, in popular culture, to come from there is to be previously disadvantaged. Investment potential or not, it could be said that Benoni is the place actress Charlize Theron escaped from, a place synonymous with unsophistication.

The aim of property supplements is to book-end property advertising and supply revenue to the main body of the newspaper or the newspaper group. Articles are often a form of advertorial, sometimes directly quoting estate agents "talking to their book". They need not be so, but my own experience leads me to believe that resourcing the writing of material for property supplements is not a priority for editors or management.

In the main body of newspaper and magazines, a search of the database of Independent Online for reports mentioning housing shows the focus is mainly on house price movements. This entails the regular reporting of the house price indices of two major banks. Sometimes the results of auctions or the experience of auction houses is used to illustrate trends in the property market. Rarely are articles owned by reporters, that is originated and researched by them. Too often they are reactive. Also rare is the human angle: who are these people who are losing their houses in auctions? Why did it happen?

The coverage all feeds into a one-dimensional view of the residential property market, as simply an area of investment. And, until fairly recently, that view took in only the formerly white areas, whose inhabitants are middle to upper class. Only recently has there been, to my knowledge, any focus on price movements in the poorer areas. In both the main body and advertorial or near-advertorial articles the fall in property prices is presented as a temporary phenomenon. Moreover, price falls are presented in an entirely negative manner – except by estate agents, who remind that it is "never a better time to buy property".

The focus, in other words, is almost always on existing owners, rather than those frozen out of the market by rising prices. Some concern may be expressed about new entrants, but when house prices fall it is rarely mentioned that this is good news for those wanting to get into the market – or simply find a home.

As Shiller comments: "Life was simpler once; one saved, and bought a home when the time was right. One expected to buy a home as part of normal living, and didn't think to worry about what would happen to the price of homes. The

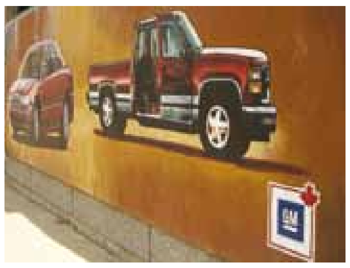
continued on page 18

December 2008

Denmark, slash interest rates again. The Reserve Bank cuts its influential repo rate by half a percentage point to 11.5%, the first of several decreases, as it starts to consider the effects of the global economy on inflation. The rate will drop to 7.5% by the end of May 2009.

16 December
The US Federal Reserve slashes its key interest rate from 1% to a range of zero to 0.25% – the lowest since records began.

19 December
President George W Bush says the US government will use up to $17.4bn of the $700bn meant for the banking sector to help the Big Three US carmakers, General Motors, Ford and Chrysler.



29 December
The US Treasury unveils a $6bn bail-out for GMAC, the car-loan arm of General Motors.

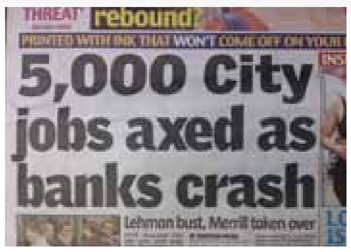
31 December
The FTSE 100 closes down 31.3% since the beginning of 2008 – the biggest annual fall in the 24 years since the index was started. The Dax in Frankfurt lost 40.4% over the year while the Cac 40 in Paris dropped 42.7%.

January 2009

5 January
US President-elect Barack Obama describes America's economy as "very sick" and says that the situation is worsening.

8 January
The Bank of England cuts interest rates to 1.5%, the lowest level in its 315-year history, as it continues efforts to aid an economic recovery in the UK.

9 January
Official figures show the US jobless rate rose to 7.2% in December, the highest in 16 years. The figures also indicate that more US workers lost jobs in 2008 than in any year since World War II.



13 January
China's exports register their biggest decline in a decade.

AS SAFE AS HOUSES, NOT

continued from page 17

increasingly large role of speculative markets for homes, as well as of other markets, has fundamentally changed our lives... The changing behaviour of home prices is a sign of changing public impressions of the value of property, a heightening of attention to speculative price movements."

Shiller argues the news media were responsible for rising property prices in the US spreading to other markets in the world. This is not necessarily true. Sophisticated South Africans, with an eye on emigration and in an era of increasing internationalisation in many fields, have a shrewd idea of how property markets are performing elsewhere, despite a lack of news media coverage.

It is true that the global property bubble helped fuel our own boom. It seemed more persuasive that our market had some steam in it when the money a mansion in Sandton could command hardly bought a flat in Sydney.

What will happen to markets now in this unfolding global recession will determine whether we continue to think about housing as a market, and one in which falls in prices are merely a pause. Is there not time for more nuanced reporting on property, from a business point of view (let alone socially or politically)?

A place to start would be to examine the idea of housing as an investment, and set this against rental. It may be that some people may never be able to afford a house, and that renting will be the only option. Another is to find out what rental levels landlords can demand in this recession, and what this may tell us about the present level of home prices. And are interest rates the only factor in determining the direction of house prices? And what about the human face of booms and busts? What is happening to the character of suburbs where prices are plunging? Are people still losing their houses? Which kind of people? What happens if you do find yourself on the street? How many people are distressed sellers? Could the government be asked to intervene in some way?

I am not saying that I have the answers to these questions, or that they are all answerable, but trying to answer them has to be more interesting – and useful to an audience – than titbits about fashionable suburbs or the monthly regurgitation of a bank's release of its house price index. And perhaps they may help us avoid the unquestioning belief in new era wealth that accompanies bubbles.

January 2009

German Chancellor Angela Merkel unveils an economic stimulus package worth about €50bn ($67bn; £45bn) to kick-start Europe's largest economy.

14 January

The UK government unveils a plan to guarantee up to £20bn of loans to small and medium-sized firms, to help them survive the downturn. US Commerce Department figures show retail sales fell by more than expected in December, as shoppers cut back on spending over the Christmas period. The news prompts big falls in share prices in the US and Europe.

15 January

The European Central Bank (ECB) cuts eurozone interest rates by half a percentage point to 2%. The ECB has now reduced rates four times from 4.25% in September as it continues efforts to bolster the eurozone economy.

16 January

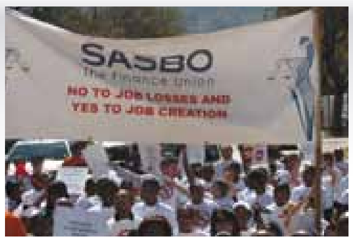
The US government reaches an agreement to provide Bank of America with another $20bn in fresh aid from its $700bn financial rescue fund. The emergency funding will help the troubled bank absorb the losses it incurred when it bought Merrill Lynch. Struggling US banking giant Citigroup announces plans to split the firm in two, as it reports a quarterly loss of $8.29bn (£5.6bn).

24 January

President Obama pledges that his economic recovery package will be at the centrepiece of his administration. Obama says that 80% of the spending will take place within 18 months.

28 January

World economic growth is set to fall to just 0.5% this year, its lowest rate since World War II, warns the International Monetary Fund (IMF).



It now projects the UK will see its economy shrink by 2.8% next year, the worst contraction among advanced nations. The International Labour Organization said that as many as 51 million jobs worldwide could be lost this year because of the global economic crisis.