

Can there be anything as safe as houses?

(Dr Frank Eich)

- **According to a survey by Liverpool Victoria, more parents would advise their children to buy a property rather than invest in a pension as the best way to prepare financially for retirement. This advice says a lot about the state of pensions in the UK.**
- **Over the last few decades, buying a property has turned out to be an excellent “investment” from an individual’s point of view but will the forces that helped drive up residential house prices continue to exist in the future?**
- **Even if they did, it has been frequently pointed out that societies would be better off if they invested more in growth-enhancing capital rather than residential housing.**

Last week’s report *Home is Pension*^a by Liverpool Victoria, the British insurer, offers interesting insights into the nation’s psyche and attitude towards saving for retirement. Two of the headline findings stand out:

- first, that 44 per cent of those aged 50 years and over in work still had to pay off a mortgage and that an increase in interest rates would make it difficult for them to pay the mortgage *and* save for retirement; and
- second, that more parents would advise their children to buy a property rather than invest in a pension as the best way to prepare financially for retirement.

This advice says a lot about the sorry state of pensions in the UK. With the state pension providing at most a modest income today and also in the future, occupational pensions in decline and the stock market too volatile for many to invest in, it is perhaps not surprising that Britons put their trust into the housing market as the safest long-term investment strategy. After all, house prices have risen faster than earnings in the past, turning in an impressive long-term performance even with the occasional setback. What has been a boon for the parents, is obviously bad news for the children, many of whom are currently in no position to afford a house given the state of the labour market, access to finances and generally still too high price level of residential housing.

This trust in the housing market (and lack of alternatives) also explains the emergence of the “buy to let” culture in the UK over the last decade, which appears to be just a natural progression from owner-occupation to private landlord in an effort to prepare for retirement. For example, the Joseph Rowntree Foundation found that: *“Amongst investors for whom being a landlord was not a full-time occupation, buy-to-let was being used as a form of pension planning. Most were intending to live on the rental income when they retired. Many were dissatisfied with the performance of their personal or company pension schemes, and sometimes with stocks and shares, and had switched to investing in residential property. They considered this to be a safer and better-performing investment over the medium to long term. Compared with private pension schemes, the flexibility of investing in buy-to-let was another attraction.”*^b

This fixation with the housing market raises a number of questions. For example, can it really be “safer” to put your life savings into one or at most a very small number of properties – generally in the same location – than diversifying your investment portfolio? Put differently, will the forces that led house prices to increase above earnings over a long period in the past continue to exist in the future? Even if they did, would that actually be economically and socially optimal? Is there any benefit from developing attractive alternatives? This is worth asking as individuals perceive the purchase of a property as an “investment”, while in economic terms purchasing an existing property is not an investment but merely a transfer of property rights. It has often been pointed out that societies would be better off if they put less of their savings into the existing housing stock and more in productive capacity to raise long-term economic growth and hence prosperity.

It might sound like heresy, but Britons could probably benefit from a slightly cooler love affair with the housing market.

^a http://www.lv.com/media_centre/press_releases/home-is-pension-is-mantra-for-retiring-generation

^b *Private landlords and buy-to-let*, The Joseph Rowntree Foundation, October 2003. Also see Citizen reporter: *Property as a pension*, BBC, 27 July 2006 and *A house or a pension? Buy-to-let, and get two for the price of one*, The Independent 23 March 2003.