

# Monday, February 18, 2008

## [How did so many people come to own two houses?](#)

Since the late 1990s it has become quite normal to own a second home and today there is a massive industry selling holiday homes in wide range of exotic locations around the world. According to the Office for National Statistics, around 2 million Britons now own more than one home, many of which are in the UK but there is also a growing number abroad, with sales being driven by overseas property features in the media and the expansion of budget airline routes.

If you cast your mind back you can probably remember when it became the norm for the majority of people to own their own first home rather than to rent. It wasn't that long ago and it was a normal progression that enabled people to borrow money more easily and to make the jump from renting to owning. Even though financing became more widespread, people still had to save up for a good deposit and for everything that went in the house. Today, no-one saves money anymore and everything is bought on the never-never (as it used to be known). During the last decade the world has changed as far as money and wealth are concerned in the UK.

In the long run it makes sense to own a property rather than to pay money in rent each month because a portion of each mortgage payment usually goes towards paying down the debt and therefore the capital in the property accumulates. Getting on the housing ladder has become a rite of passage today, not just an aspiration.

During the last decade things have changed enormously. Whereas 10 years ago it was only relatively wealthy people that owned a second home, it has now become a realistic possibility for millions of ordinary people, as illustrated by the explosion in adverts for holiday homes as far as away as Thailand and Canada. Bearing in mind that the average real income (i.e. accounting for inflation) has hardly risen at all during the last decade, how is it that so many people now have two houses without having any significantly higher disposable income?

If you ask the average person in the street what the currency is in Bulgaria or how to say Hello in Romanian, they won't have a clue. If you ask them whether or not Bulgaria is considered a good place to own property as an investment, I bet many Brits will be able to express a view. There are so many developers promoting holiday homes in eastern Europe that British people now consider it desirable to own a luxury apartment or villa in what is still considered to be a third world country. The advertising does a very good job of selling a lifestyle that is often far removed from the wider reality in these countries but part of the appeal is that property in many eastern European countries is very cheap compared to the UK. However, in addition to the image buyers have of themselves sipping champagne on their terrace as the sun sets over the countryside, I would argue that the main appeal is the potential for capital growth.

It is amazing how many people compare eastern European prices with UK prices and remark how cheap property is there. There seems to be an underlying assumption that the low

prices are simply lagging behind those in the UK and that they will one day catch up. This view tends to ignore the fact that there is no shortage of property in many countries, plus the rush for rapid economic development also means that these countries are unlikely to put the same obstacles in the way of new property developments as the UK or France might.

The whole experience of owning a property abroad is different from the bottleneck system that is the UK housing industry. Supply of new build property has increased dramatically in most holiday hotspots and many people who have bought apartments in new developments find it very difficult to sell when there are 200 new apartments being built just down the road. New apartments tend to attract a premium price initially but after a year or two they are no longer new and can't compete. In a rising market this isn't such a problem but in a market where prices are falling it can be disastrous for highly leveraged buyers. If more people are forced to sell their second properties because of rising mortgage rates, worries about exchange rates or simply more urgent demands on their income at home, there is likely to be a flood of properties into the market at around the same time.

In addition, due to the long lead time between giving the green light for a property development and the final completion of the project, there is unlikely to be a slowdown in new supply for some time. This has been well illustrated in the US where there is 9 months of new housing supply waiting to be sold.

Whereas owning a second home has been easy in recent years due to cheap and available finance, things have now changed and we are likely to see a reversal of the trend to own. This is due to several factors:

- Mortgage rates are rising and people are paying more each month for their property.
  
- Other everyday expenses such as fuel bills and buying food has increased dramatically in price, which means there is less disposable income available for luxuries.
  
- Paying for two lots of council tax, two lots of maintenance expenses and two lots of mortgage refinancing fees is all going to be a drain on resources if budgets are tightening.
  
- Cheap flight prices have increased in recent years as fuel prices have soared.
  
- Many loans in eastern European countries are taken out in low-yielding foreign currencies such as the Yen and Swiss Franc. These currencies have strengthened considerably recently which increases the size of the outstanding debt.

Whilst the pressures of owning a second home have increased there is further bad news for those wishing to sell:

- Supply of new developments has not yet peaked in most countries (with the possible exception of the US) and supply is probably outstripping demand now.

- Mortgage applications in the UK are now running nearly 40% lower than a year ago which means that the number of potential buyers has dropped off a cliff.

- The media has latched onto the negative sentiment in the property market in many countries and this is a blow to confidence. Inexperienced investors who would previously have jumped on the bandwagon will now hesitate.

- Many people who initially found it relatively easy to buy property abroad are finding out how difficult it is to sell when everything isn't laid on for you. In many countries the local population can't afford the prices asked for new developments and that only leaves the overseas market in which to sell.

Owning a second home has gone from being a luxury only the rich could afford, to being quite commonplace, and is soon likely to be viewed as a step too far for many families. If the UK experiences a serious economic downturn as many people are predicting, that is going to mean higher unemployment, less job security and less chance of getting a pay rise. Most people could soon find themselves financially much worse off and many of those people who own a second home are going to feel like they have a huge millstone around their neck.

The explosion in easy credit in recent years has created a strange state of affairs that has allowed people to feel as though they are wealthier because their purchasing power has increased, as they have been able to borrow more and more money. The equity in their property has made them feel wealthier, even though they have to borrow against it in order to spend it. The availability of cheap credit, alongside a society that is obsessed with celebrity worship and all the material trappings that goes with a successful celebrity lifestyle, has enabled many people to escape the chains of their static incomes and their dull lives and they have been able to buy into a whole new lifestyle if they want to.

The boom in second homes has been a symbol of British society's detachment from reality and this illusion is very likely to end in tears, and very soon. Whilst the UK's love for holiday investment properties is not likely to become our very own sub-prime disaster, there is no doubt that a large number of people are going to find that an expensive illiquid investment can be something of a nightmare in a falling market and I expect to see a lot of bad luck stories emanating from this sector for many years to come. Bargain hunters should keep their powder dry for now but watch out for some fantastic deals in the next few years.