property journalism helped foster an unshakable, 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

A t 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 propagate “speculative price movements through their efforts to make news interesting to their audience”.

Some property reporting in South Africa apparently stems from the property market, as simply an area of 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

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December 2008

16 December

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 $60bn bailout 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 past 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 16 years. The rate will drop to 7.5% by the end of May 2009.

13 January

China’s exports register their biggest decline in a decade.

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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.