

A Housing Solution

The Question Of Equity



A Housing Solution: The Question of Equity

Part 1: Some background before an imagined future

What would our communities look like if everyone was able to purchase a home and pay off the mortgage?

This would mean everyone would have equity and lower living costs.

What would it actually take for this to be a reality two generations from now?

Stepping back from this for a moment - how do you make yourself truly believe that something like that is possible?

The best way to believe is to look back in time at how far we've come since the discovery of oil less than 170 years ago - only about five generations - it's hard to imagine how someone from the 1850s could truly believe what's become possible by the mid-2020s.

Often the only way to move toward an imagined future is to set a goal or have a dream, suspend disbelief, and start looking for partial solutions, even if there is a fundamental lack of understanding at the outset.

Without a goal or having a different imagined future first, it's unlikely that a rigorous pursuit toward understanding will follow.

To understand what is possible for housing equity beyond our status in Canada or the US, we can look to a current example of a country that is reaching near universal homeownership: Singapore...

Singapore's housing achievement:

Beginning with the pursuit of homeownership as an incentive for patriotism towards national defence (people being more likely to defend a home they owned than one they rented), Singapore tried different approaches to housing finance until discovering some simple principles that supported a rapid absorption of the newly built housing communities.

Early in the 1970s, Singapore's "Housing Development Board" (HDB), which is their government-run national housing development and financing enterprise, saw the number of homes newly occupied each year grow from hundreds to thousands. By the 1980s, Singapore's HDB was building, selling, and financing 155,000 homes every 5 years.

RECENT HOMEOWNERSHIP RATES BY COUNTRY



To date, the HDB has housed over 3.5 million people, and Singapore's homeownership rate is now above 90%.

What makes this even more incredible is that the nation of Singapore is roughly the same size as Greater Victoria, but with over 10 times the population.

Looking back at it, Singapore's discovery was simple and common sense in theory, but clearly challenging in practice. They saw firsthand the result of keeping monthly payments at an affordable level while reducing the down payment to an easily manageable amount.

The HDB is different from the Canadian Mortgage and Housing Corporation in that the HDB developed housing projects and offered self-insured financing for them, whereas in Canada the CMHC mostly leaves housing development to private developers en masse. The same is mostly true in the U.S. The ability to do this in Singapore is made easier, of course, by the country's land size.

The more profound difference in Singapore's financing model, and the major missing piece in Canada and the US, is that the HDB did not get all the "interest" on the mortgage financing provided from the home purchaser's monthly payment. They deferred part of the capital return to the eventual sale of the home. This means that the home buyer did not have to re-pay all the financing out of their own pocket - the home itself, and its appreciation in value, covered some of the financing costs. Singapore has even turned housing into a supplement for retirement income by having "full life-cycle" options for converting equity into additional income, much like an annuity triggered at retirement age.

This aspect of sharing in the value growth with homeowners, and funding more patient capital, is not an identifiable part of our capital markets in Canada or the US. The housing market in Canada is greater than \$2 Trillion in value, and the housing market in the US is greater than \$30 Trillion in value and at best, there may be groups here and there with a few hundred million working on different models to share equity growth in homes.

Funding housing equity in a predictable, “equitable” manner, and scaling dollar volumes of homes to the level needed to address the market demand and opportunity, is, in my opinion, the next major evolution in the “history of the home mortgage”.

Singapore’s model combined the incentives of three different aspects of the housing industry - development, mortgage insurance, and mortgage funding - and optimized for maximum homeownership. Their solutions have led to widespread home ownership within their country, and they have made it possible to own a home with lower down payments and affordable monthly payments.

Singapore provides us with proof of what’s possible. Now we can consider the obstacles that stand in the way of adapting their principles for Canada and the US.

In part 2, we will look at some of the challenges we face; and in part 3, we will present a category of solutions.

Read Part 2 Here: <https://ahouseshared.ca/part-2-a-challenging-environment/>