Can the UK's housing problem ever be remedied?

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Housing is a highly topical issue. Reports of first-time purchasers excluded from the 'housing ladder' or existing homeowners finding it difficult to afford houses with more space regularly appear. Reducing affordability has created concern across the political spectrum.

UK FTP house price-salary ratio based on Nationwide and ONS data (published in *The Daily Mail* 19th January 2021)

Data shows huge imbalance between those who own property and those who cannot afford to own. The ability to buy your own house is seen as a way to possess an asset that will increase in value with little risk. Moreover, because of greater propensity by many, especially the young, to rent, the amount they must pay has increased.

Action to create change is widely accepted.

The *Financial Times* Editorial Board, in December 2019, called for a long-term housing strategy. Crucial, it argued, was not only a far greater number of houses be built, but that renting should became more affordable and fairer.

Though all governments claim to be concerned about the problem of housing, they're fully aware that any intervention resulting in reduction of house pieces is unlikely to be welcome by existing homeowners. That approximately two thirds of the population own their homes makes their feelings significant.

Since the millennium, all of the major political parties have introduced initiatives intended to assist those wanting to gain access to the housing market. Ironically, these have caused house prices to increase making the challenge of owning your own home harder for first-time purchasers.

Cynics contend that those most instrumental in the supply of new houses, large developers who typically build 90%, are not sufficiently motivated to increase output. Indeed, though there's a good argument that increased house prices related to the scarcity of land, the involvement of developers in this trend is significant.

The history of housebuilding since the 1970s demonstrates a shift away from small and medium-sized local companies in favour of the larger, national corporate outfits. This is not by accident. Larger companies have greater access to finance and their influence has driven land prices up.

Housebuilding increasingly displays characteristics resonant of an oligopoly. Relatively few suppliers are responsible for a significant proportion of what's available to buyers. Large developers' ability to use their corporate 'muscle' to force up the price of land has enabled them to effectively exclude smaller outfits and choice. Though not acting as a cartel, which would be illegal, and following liquidity crises experienced in previous decades, such house builders use control of 'landbanks' to their commercial advantage.

By limiting output, as large house builders are criticised for doing, they effectively ensure prices for their product remain high which, of course, as well as enabling them to garner an adequate return on investment in land, has an aggregate impact on the stock of all houses. Overall, the price of houses rises.

If first-time purchasers feel they lose out, developers certainly do not. In *The Byline Times* last November, Julian Mercer reported on the fact that researchers from Sheffield Hallam University calculate that Persimmon, the UK's biggest house builder, make £66,000 profit on every house it builds allowing directors to share in a £400 million bonus.

Economics commentator Liam Halligan in a comment for Conservative supporting *Telegraph* last July, 'Britain's grasping house builders must be shaken to their foundations', concurs with the view that housebuilders actively engage in in creating "contrived scarcity". Halligan quotes a conversation with upmarket developer Tony Pidgley who died shortly before publication. Pidgely, surprisingly, acknowledges that the vast proportion of house builders' profit is based on their ability to engage in "land-banking" involving holding onto land until house prices have risen to generate handsome returns.

The question of how the situation can be remedied is as relevant now as it was in 2004 when Kate Barker, then a member of the Bank of England's MPC (monetary policy committee), was asked by Tony Blair's Labour government to produce a report considering ways in which supply of housing might be increased. Though Barker's intentions were honourable, it's notable that house prices did not fall; quite the contrary. Worse, four years later, in 2008, the impact of the financial crisis, was caused by over-exposure of lenders who provided finance to frenzied property developers availing of increased returns.

The 2013 'Help to Buy' scheme, launched under David Cameron's Coalition government with the LibDems, was explicitly intended to assist first-time buyers. Commenced on April 1st and available until last year, this initiative allowed buyer of any newly built house to raise only 5% of the property's value as a deposit. The government through the Homes and Communities Agency (HCA) supplemented an additional 20% of the value as an attractively priced loan requiring no interest for first five years.

Increased demand by first-time purchasers due to ‘Help to buy’, unsurprisingly, caused average UK house prices to increase by, it’s estimated, 5%. This undermined the challenge faced by all subsequent purchasers, including those wishing to move to larger houses.

Carozzi, Hilber and Yu, from the Centre for Economic Performance at the London School of Economics, in their March 2020 paper, *On the Economic Impacts of Mortgage Credit Expansion Policies: Evidence from Help to Buy* are forthright in their view that data they’ve analysed shows that ‘credit constrained’ households have not been assisted by ‘Help to buy’. As they state, “Only developers or land-owners, not new buyers” benefitted. Moreover, contrary to its objective, ‘Help to buy’ they claim may have led to “unwanted regressive distributional effects.”

The most recent initiative launched last year to stimulate the housing market which had, similar to the majority of other sectors, been negatively affected by the impact of coronavirus, was a ‘holiday’ on stamp duty paid on all houses up to the value of £500,000. Given supressed demand for house had been predicted to lead fall in prices, it might be argued that the impact of the pandemic would be beneficial for those wishing to buy their first house.

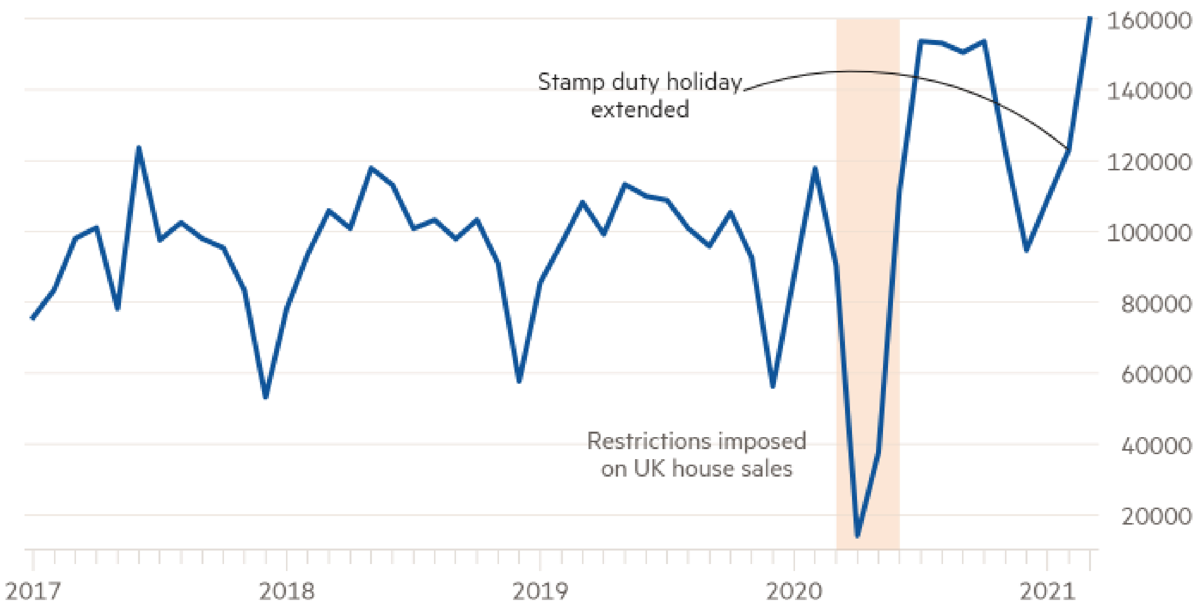
Crucially, requiring purchasers to pay less tax did not just support an ailing housing market. As has occurred with all previous interventions in the housing market, prices have increased.

According to data published by the Halifax in January, in the six months since the introduction of the stamp duty holiday, the average price of a house has risen by £14,000.

House sales were, with the prospect of an end to the stamp duty holiday on 31st March, starting to dip. However, as [The Financial Times](#) reports, the extension announced by Rishi Sunak in the March budget has resulted in another “sales boom” causing prices to rise.

UK housing sales rise again in March

Monthly sales agreed



Source: TwentyCi
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Unless stamp duty is permanently terminated, called for by many leading commentators to end the anomalies it produces, once the extension of the holiday expires it's likely there'll be a cooling off and, potentially, a drop in prices. However, whether this leads to the sort of crisis some suggest possible, is open to conjecture.

Many housing analysts contend that prices of British housing are increasing too rapidly and beyond the 'safe limit'. The danger of an unexpected crisis leading to sudden collapse has been a concern posited by many for some time. Coronavirus and predicted job losses was seen as a catalyst for such a crisis. That events have turned out to be not as dreadful as suggested might be a considered cause for celebration. Apart from, perhaps, those trying to gain access to the housing market.

However, as Martin Farrer writing in *The Guardian* believes, ultra-low interest rates and extremely long loan periods, up to 50 years, may mean a 'bursting' of house prices may never occur and a perpetual 'bubble' becomes the new normal.

This is hardly likely to bring much cheer to hard pressed potential homeowners. The young, frequently part of the 'precariat', whose wages are highly unlikely to rise in line with house price inflation, will suffer added disadvantage. For them, affordability is likely to become more pronounced than ever.

Which brings us back to the question, can the housing problem ever be remedied?

Suggestions by experts in *The Guardian* of "six ways" to tackle the UK housing crisis are provide some interesting pointers of what's needed. One, 'Build differently', involves adopting 'modern methods' of construction based on prefabrication in factories and rapid assembly on site.

This approach, by which houses may be erected up to four times more quickly than by traditional bricks and mortar is not without detractors. Critics cite the fact that such forms of construction are more prone to later remedial problems and harder to adapt. Worryingly, such critics stress, as demonstrated by the continuing scandal concerned with cladding, such systems are more prone to the danger of fire than houses constructed with masonry.

This 'solution' ignores is the fact that in order to increase the supply of houses, regardless of whatever way they're produced and assembled, more land is required. Availability of land has been at the heart of the problem and, though reclamation is possible, as has occurred in Holland, is finite in supply.

Planning regulations, including the Town and Country Planning Act 1990, intended to ensure unrestricted development does not destroy the environment, is condemned by some as an impediment to increased supply. This argument is refuted by those who assert what's needed is a very different approach to the supply of housing which must recognise the importance of affordable housing; included in *The Guardian's* six suggestions.

Recent history does not bide well for the supply of affordable or social housing. Indeed, as reported in this article, the intention to replace existing arrangements with a national infrastructure levy, "details of which are unclear", may mean even fewer affordable houses are built in future.

Five years ago, in *Profits before Volume? Major housebuilders and the crisis of housing supply,* published in 2016, Tom Archer and Ian Cole from Sheffield Hallam University's Centre for Regional, Economic and Social Research, argued that large housebuilders' unwillingness to increase supply would exacerbate the gap between what was available and demand.

As we've experienced since 2016, including during the pandemic, the average price of housing has increased. Affordability is an even greater issue now than five years ago. Meanwhile, large developers do very well and are surely comfortable with things remaining as they are.

It seems that unless there's direct intervention by government to force large house builders to increase supply, highly unlikely under the present administration, nothing will change. Indeed, the pessimistic French expression, *plus ça change, plus c'est la même chose*, the more things change, the more they stay the same, might seem to neatly summarises the current malaise in British housing.

Sadly, it must be concluded, potential remedies to the UK's housing problem are as remote as they've ever been.