Will HS2 end the property price spiral?

[Posted by Prof Henry G. Overman]

I'm puzzled by the latest comments on the impacts of HS2 (as reported in the Times), suggesting that the high speed link will end the property price spiral in London and the South East. How is that possible?

The direct effect, via commuting flows, must be pretty small. Around 400,000 people commute in to Central London by the Underground and around 850,000 on surface rail. According to the Strategic Case for HS2, the combined phases one and two add 19,800 seats at peak hour in to Euston. Even allowing for 100% loading - i.e. full trains - (which seems unlikely) the percentage increase in people who can work outside London and commute in will be tiny, so the effect on property prices will be correspondingly small.

Therefore any indirect effect must operate via the growth and location effects of HS2. But HS2's own figures suggest a large growth boost to London. I have said before, I have my doubts about the magnitude of these figures but they are surely positive. In the absence of a supply response, this must make housing more expensive not less. Again, according to HS2's own estimates, areas outside London might benefit proportionally more than London and the South East (although, again, this is s.t. a high degree of uncertainty) but all that tells us is that the proportional increases might be larger outside London in other cities well served by the new line(s).

In short it's hard to see how something that boosts growth, and hence demand, in London (both absolutely and relative to other parts of the country not on the line) will do anything other than increase London house prices.

Posted by Prof Henry G. Overman on Wednesday, January 15, 2014

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