



Thursday, 29 March 2012

Falling house prices and the case for more housing

All that fuss about the [National Planning Policy Framework](#) and the [need for more housing](#) and then we find out that [house prices are falling anyhow](#). Surely these house prices falls undermine the case for more housing?

If only things were that simple. First, because the volume of house prices sales is currently low, fluctuations in these indices (which are based on sales) are less informative than usual. Second, taken at face value, the figures might tell us something about the current state of the economy but they are no good indicator of long run conditions in the housing market. Why? Because economies that fail to build enough houses tend to experience high house price fluctuations. As argued by Philippe Bracke in [this post from November last year](#) this has certainly been true historically for the UK and there's no reason to think things should be any different this time round.

As Philippe argues: "Ups and downs are an intrinsic feature of all economic series but booms and busts are not, and this is where the UK compares unfavourably with other countries. Even by US standards, UK house prices look like a rollercoaster: they more than doubled in real terms since the mid nineties; before that, they fell by almost 40% from 1989 to 1995. For prices to vary so much, quantities must be very sticky. Indeed, a recent [OECD working paper](#) shows that the number of new housing units built in the UK is low compared to other nations. A [report](#) by the Department of Communities and Local Government suggests that strict planning regulations hold back housing supply and make prices more volatile. [...] It might seem strange to advocate more house building in a period where house prices are falling. However, the current decline in house prices represents a cyclical adjustment that is not due to abundance of housing units. If this were the case, we wouldn't see the current [rent increases](#)."

[NB: Economies that tend to build way too many houses can also experience high fluctuations but for different reasons. However, house price to income ratios show that the UK is certainly not building too many houses. It's hard to see that the recent NPPF will have such a radical impact as to move us from one extreme to the other.]

Posted by Prof Henry G. Overman on [Thursday, March 29, 2012](#)

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