

[More](#) [Next Blog»](#)

# Spatial Economics Research Centre

Monday, 21 November 2011

## Housing Strategy

Some initial commentary on the government's [housing strategy](#) suggests that there is little coherent vision. Unless you think that the government could be spending lots more money than it is on housing, I think this criticism is a little unfair.

The government has two problems. One is short term. (At least) three things are combining to make current building figures look very bad. First, the recession makes things very uncertain for housebuilders. Second, the debate around the National Planning Framework is reinforcing that uncertainty. Third, the lack of mortgage finance is compounding the problems stemming from this increased uncertainty. There's not much that can now be done about the first two of these (although I did suggest some time ago that the government might regret the haste with which it abolished regional plans in the absence of something to replace it). The new build indemnity scheme will do something to tackle the third problem of mortgage finance - at least for new build. This will have some positive effects on supply, but it is possible they might be quite limited. Not least, because developers with schemes that are not started may be better off exercising the option value of holding on to undeveloped land until the market outlook improves.

On schemes that are stalled, the government has announced a Get Britain Building investment fund. Apart from the more boring description, and the smaller amount of money available, it's not clear that this is massively different from the labour government's 'kickstart' programme. As a result, and with the new build indemnity, the effects are likely to be positive but limited.

Longer term, I think the fundamental problems remain and my take on this is little changed from [earlier in the year](#). The government has a real problem and one that is *mostly* not of its own making. The under-supply of housing has been a long term problem which the previous government were unable to tackle effectively. Labour were slow to recognise that something needed to be done about the planning system. Once they realised there was a problem they introduced top-down regional plans that tried to force local authorities to build more housing. These were incredibly unpopular with local authorities in parts of the country that needed more housing and were quickly abolished by the coalition. The national planning framework intends to [replace this top down system with more localism and a set of incentives to encourage development](#). For a number of reasons I think [these reforms should be welcome](#) but worry about the short term as discussed above.

In addition to these short term issues, there is the longer term issue of what the government will do if its package of financial incentives are [insufficient to encourage more development](#). With the new system yet to be bed in it could be a number of years before the government is able to assess whether the system is working (the recession compounds the problems here). That brings us close to an election where a change in government could see a change in policy. Cue more uncertainty for developers. This suggests that the government might have been better going for stronger initial incentives (e.g. on NHB and [local business rate retention](#)) which could then have been scaled back.

Another area which Labour struggled with, was the insistence on high brownfield targets. I have discussed the [problems with these targets before](#) but they remain incredibly popular (see, for example, the recent National Trust proposals on the NPPF). There is a real danger here that the coalition will be able to resist calls to strengthen constraints on building on greenfield land in the national planning framework. They have already committed to maintaining green belts, but there are many [other categories of 'protected land'](#) where policy remains uncertain.

So much for some of the problems on the supply side where, as I have said, many of the problems are long term and not of the government's making. already discussed, I think the short run effect on the demand side will be limited. In the long run, I just don't think policies on the demand side will help and may well create more problems than they solve. Setting aside the big demand side issue (the fiscal stimulus) the government continues to spend money on policies that try to 'help people on to the housing ladder'. Such policies to boost demand exacerbate the price problems caused by supply constraints and only help those lucky enough to get assistance from a scheme. This will always be at the expense of someone similar who doesn't benefit from the scheme and does nothing much to address the fundamental problem. The politics of this are tricky because it allows the government to say they are 'doing something to help' but the money would be much better spent on increasing incentives on the supply side. The government should certainly resist calls for [further measures on the demand side](#).

In short, today's announcements might do something (although likely not much) to help in the short run but the longer run problems remain. Worse for the government, those long run problems (particularly around uncertainty and the resulting option values for developers) may well dampen any response to the short run policies.

Posted by [Prof Henry G. Overman](#) on [Monday, November 21, 2011](#).

Recommend this on Google

### No comments:

[Post a Comment](#)[Newer Post](#)[Home](#)[Older Post](#)Subscribe to: [Post Comments \(Atom\)](#)

Simple theme. Powered by [Blogger](#).