



# Spatial Economics Research Centre

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## Empty Bedrooms and the Housing Crisis

The Intergenerational Foundation are calling for the government to [adopt measures to stop the 'hoarding' of housing by older people](#). I have some sympathy with parts of their argument, but strongly disagree on other parts.

Let's start with the point of agreement - constraints on housing supply have generated a large redistribution of wealth towards home owners. As home owners tend to be older this has resulted in a large intergenerational transfer from young to old. This is one of the many reasons why I strongly support government proposals to [reform the planning system to increase housing supply](#).

I find the arguments that follow much less convincing. Based on an assessment of housing 'need' the report argues that we should take bedrooms from the people who currently underoccupy their house and give them to those who live in overcrowded conditions. In practice, of course, this means getting people to move from large houses to small.

Ironically, the fact that planning decisions are made on the basis of 'need' but housing allocated through the market is one of the reasons why the housing market in the UK is in such a mess. Markets seeks to balance supply and *demand* (rather than need) and it turns out that, unsurprisingly, as societies get more wealthy they tend to demand more space, not less.

One response would be to switch to a 'needs' based mechanism for allocating housing. As my colleague Paul Cheshire puts it: one option "would be rigorously to follow the logic of 1947 state planning. If we are intent on allocating land for each use without regard to price then logically we need to introduce space rationing. If price does not determine the supply of land then price must not determine its consumption. Each adult could, for example, have a ration of say 40 sq metres with dependent children having, say, another 20 sq metres each. We could, if we wanted, even introduce a trading system so young adults or those willing to live in more cramped conditions could sell some of their space ration perhaps buying back space in later life. This is not a serious suggestion, although [others appear not to get the joke](#).

The Intergenerational Foundation suggests something that appears less extreme - a raft of government measures that would encourage homeowners consume less space. These would be of two kinds. The first would strongly penalize people who 'over' consume space. Such penalties build up from a logic of housing need and are problematic for all the reasons that space rationing would be. Who gets to decide how much space is enough?

The second approach is to remove barriers and distortions that encourage people to 'over consuming' housing. I have no problems with these kind of measures apart from the fact that I think they will be highly costly and remarkably ineffective. Take, for example, the idea of removing stamp duty on people downsizing. At the moment, the huge wealth gain that they would get by moving to something smaller is insufficient to offset the benefits of staying put. Removing stamp duty changes this balance for a small number of people at the margin but at a huge cost to the exchequer. Removing sin person allowances on council tax or removal of universal benefits for those in valuable houses will have similarly small impact on the number of people willing to downsize but imposes high costs on a small number of people who are income poor but don't want to move for some reason. For the more wealthy this will essentially be an irrelevance. Changing the treatment of capital gains tax would provide a disincentive for ownership (which may or may not be a good thing) but dampens the incentives to downsize. An annual capital gains tax is a punishment based on arbitrary decisions on how much space is enough and which I object to for the reasons outlined above.

Just as with [empty homes](#), reallocating empty bedrooms do not represent a long run solution to the housing crisis. The best way to improve the outlook for younger generations? Build more housing.

Posted by [Prof Henry G. Overman](#) on [Wednesday, October 19, 2011](#)

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