



Spatial Economics Research Centre

Tuesday, 30 August 2011

The Homes 'Crisis'

The National Housing Federation is warning that ['the housing market will be plunged into crisis without government action to address the chronic under supply of homes'](#). They raise concerns about the impact on both rents and home-ownership rates.

I certainly share their concerns over the lack of supply, with [recent figures making for very gloomy reading](#). However, I confess to being less worried by the effect on home ownership rates and much more worried about the first order issue of the effect on both house prices and rents. In particular, with rents, there is some evidence that the effect [may be being felt more uniformly across the country](#) (compared to the strong regional variations in house prices).

The government has a real problem here 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 welcomed but I continue to worry that the government may live to regret the *immediate* abolition of regional plans. Uncertainty creates problems for developers who tend to respond by postponing investment until that uncertainty is resolved. Add to this the effect of the recession and you have the two underlying reasons for concern about the housing supply.

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 bedded 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, this [Observer Editorial](#)). There is a real danger here that the coalition will not 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. I am less impressed with actions on the demand side. 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](#).

Posted by [Prof Henry G. Overman](#) on [Tuesday, August 30, 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](#).