

## Does this Government have guts enough to solve the housing crisis?



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Last week's housing [White Paper](#) showed that the Government is well aware that the ludicrously high price of British property is a manifestation of terrible failure. Moreover, the document explicitly recognises that Britain's housing crisis is not only about the unaffordability of houses to own but also about the appallingly high level of rents.

It clearly states that fundamentally, both prices and rents are high because, given our rising population, we have not built enough homes. This is a welcome departure from so many previous Government initiatives, some of which are unfortunately still with us, that have focused on helping this or that "deserving" group to get on the "housing ladder".

If all you do is to boost the demand for housing then the only result can be higher prices, without anyone, on average, enjoying any improvement in their accommodation.

Having said that, there are several unimpressive aspects to this document. It used to be said that getting radical reform of the educational system faced enormous opposition from “the Blob”, that is to say the entrenched interests of teachers and civil servants. The housing market also has its Blob, and there is more than its fair share of sloppy thinking dotted around this document, including the ritual snipes at landlords and developers and references to “unfair” rents, whatever that means.

It is easy to paint our housing crisis as some sort of morality tale. But in fact it is a simple matter of supply and demand. Where the market does not work very well, this is almost always the result of interference by the state. So any policy agenda originating from this document should start from the pre-supposition that markets work – including the market for housing. It should then go on to identify where the Government has a legitimate role to play in modifying market outcomes.

At present, Government interference in housing supply occurs through various restrictions on land use. Of course there are restraints on building in the Green Belt, but there are also tortuous planning processes that have to be gone through in order to develop any land.

Moreover, there are restrictions on the usage and development of existing properties. At each stage, the interests of existing property owners, coupled with the usually misguided principles of planners, outweigh the interests of all those people who might readily enjoy better accommodation if development were to be given the go-ahead.

This is hardly surprising. Existing home-owners already have a voice. Prospective home-owners, who may not yet live in the relevant area, have no voice at all. Although it may be possible to trim bits of the Green Belt, surely it is in the public interest that we prevent the sort of urban sprawl that disfigures so many American cities. But what about the “Brown Belt”, that is to say, the land that isn’t exactly countryside, past or present, or in any sense really green, but often lies in limbo on the fringes of our cities?

On changed usage, there has been considerable headway, as the Government has made it easier to convert former commercial property to residential use. But we have a long way to go. Because of restrictions on usage, there is a huge divergence in the value of residential and commercial property.

Over the past 50 years, the real value of commercial rents has been static or declining, as businesses have become more efficient in the use of space, and economic activity has become less space intensive. By contrast, as they got richer, people have tended to want more and better accommodation. So the result is a fall in the ratio of commercial to residential values. The logic of these trends is that there should be a wholesale conversion in the use of land and existing buildings from commercial to residential.

But try telling that to the planning authorities. On the demand side, Government interventions are equally serious. First of all, the tax treatment of owner-occupation is extremely favourable, which encourages people to hoard property.

This tendency has been exacerbated by the recent prolonged period of very low interest rates, accompanied by a sustained rise in house prices. This has seemingly vindicated the widespread view that housing is always and everywhere a wonderful investment and that you can never have too much of it.

People see empty or under-used property, not as a cost, but rather as a particularly attractive form of investment. Hoarding is further encouraged by the Stamp Duty regime. This tax is absurd. It falls directly on housing transactions, whereas surely the economically desirable burden of tax should fall upon housing usage or ownership. This is particularly pertinent to the notion that older people should be encouraged to downsize from properties that are now too large for them.

I have been appalled by the tone of recent discussions about this issue. It has conjured up images of Stalinist “housing officers” distributing people and properties according to some supposedly socially desired norm. Again, market forces hold the key. If someone wishes to stay in a property too large for their ordinary needs, that is their business. But that is no reason for the state positively to encourage them to do this through the operation of the tax system.

Solving Britain’s housing crisis involves not just building more properties but making more effective use of the ones that already exist. This will require a fundamental rethink of property taxation. As things stand, this Government does not have the stomach for such radical reform.

Incidentally, if you believe that we are really going to build all the extra properties that the Government apparently desires, house prices will surely be lower than they would otherwise have been. Especially if increased supply coincides with a move to higher interest rates, they will even be lower in absolute terms. I think that would be an extremely good thing. But again, would the Government have the stomach for it?

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