



## The Housing Boom – Again!

**B**OOM-TIME in Britain is causing problems for analysts. They would like to “talk up” the economy, and the excited reports being circulated by mortgage-lending companies is fuelling their imagination. But they cannot decide whether escalating house prices are good or bad. The wealth effect which encourages consumers to spend in the high street shops is inspiring headlines in the media, but that is sending mixed signals. Pundits have learnt to link rising house prices with the turbulent times that precede recessions.

Gazumping has returned with a vengeance in the South East. With unemployment falling, and interest rates at their lowest level in living memory for many first time buyers, the race is on to acquire property. But with buyers outnumbering suppliers of houses by seven to one, the bidding has become ferocious. One in seven house deals is falling through because of improved offers by late-comers.

The owner of a shed-size artist’s studio in Kensington, West London, turned down an offer of £359,000 in May. He bought the structure in 1997 for about £290,000, and he wants more than £400,000 for a property described by neighbours as a “tumbledown stable”.

Housing experts are rushing to reassure the public that Britain is not once again in the throes of a 1980s boom which foreshadowed the recession of 1992. But the analysts are not offering a coherent explanation for why they say the upturn in house prices is not symptomatic of a bubble that will terminate in a bust.

Despite the recurring character of housing booms, the analysts do not have at their com-

mand a theory that makes sense of familiar trends. For example, according to conventional theory, as people feel richer they increase consumption. The Chartered Institute of Purchasing and Supply now reports the strongest rise in new business for two years. But is this an indicator of reckless behaviour that ought to alert us to an up-coming crash?

Halifax, Britain’s largest mortgage lender, claimed in June: “We are not looking at the beginning of a property boom as seen in the eighties, but now is a good time to buy a house, as mortgage rates are competitive and there are plenty of discounts to be found”. Already, such predictions are beginning to look like famous last words.

**T**HE escalation of prices is limited to London and the South East. But the cascade effect has begun, and competitive bidding in East Anglia is being reported by estate agents. How long will it take for the ripples to



**EPICENTRE** of London’s housing boom: two-up/ two-down cottages in a street in Stratford, which were built 110 years ago and sold to railway workers for £90. They are located in what was an undesirable area of the residential market. Today, the rate of increase in their price puts them at the centre of an overheating market which has taken economists by surprise.

Nationwide, Britain’s largest building society, embarrassed by a failure to anticipate the beginnings of the boom, has doubled its forecast for price increases to 8% this year.

Halifax, which in June had predicted a 4% increase for the year, revised the figure up to 6% in July and 8.2% in August.

By mid-summer, the largest annualised increases – 27.2% – have been in houses nearest to the Stratford railway station, and the properties showing the most marked rises have been in Tennyson Road.

These artisan cottages fetched £49,000 in 1994, at the bottom of the last house price cycle. Two years later the price had climbed to £52,000. Another two years and the price reached £60,000, climbing steeply to £70,000 – and since Christmas prices have been unstoppable, according to estate agents.

turn into a tidal wave and swamp the Midlands before moving on to the North and washing over the border into Scotland?

Historical data would provide analysts with some guide on the timetable, but such analysis needs an overarching theory of the relevant cycle. But while the notion of cycles is accepted, the analysts lack conceptual tools that can predict the outcome. That is where fear sets in.

No-one wants to bear bad news. So commentators claim that the new boom will not terminate in an 80s style bust. But that statement is based on hope rather than well-grounded knowledge. And one reason for this void in knowledge is that the experts are trying to read the signals with partial vision. Economists who monitor trends will catalogue the most esoteric detail, but they diligently avoid consideration of the land market. An example is to be found in the sector for commercial property.

The Royal Institution of Chartered Surveyors commissioned a study of property

### Dampening the Upswings

TWO OXFORD economists have criticised Britain’s local property tax as aggravating the housing market.

Margaret Thatcher attempted to abolish the rates, but her poll tax – called the community charge – led to civil riots. The legacy is called the council tax, which is not linked to current property market values.

The result, say John Muellbauer and Gavin Cameron, is that the tax “cannot help to stabilise regional and national economic activity. In the typical upswing of the business cycle, house prices rise substantially relative to incomes. If the council tax were linked to current house prices, the higher tax revenue would help to dampen demand in booming areas”.

A second ill effect of Thatcherite attempts at

reform is that the council tax raises much less than the old rates – around £10 billion in 1996, about a third of what was raised by the old rates on domestic properties. “This shows the scale of the fiscal disaster that followed the introduction and abolition of the community charge. This fall in revenue implies a shift from property taxation towards other forms of taxation, which is inefficient”.

The economists, writing in *The Financial Times* (Aug. 18, 1998), note that the council tax is highly regressive. People occupying a house worth £1 million pay only twice the amount paid by those in a house worth £70,000. They call for revaluations every two years and tax rates more proportional to house values.



cycles in the UK from 1921 to 1997.\* This consisted of a thorough review of the available data and deployed the most exacting mathematical and econometric tools to squeeze out the faintest nuances from the numbers. But as far as the three analysts engaged in the study were concerned, the problem was to make sense of trends associated with the "ownership of buildings". The implicit assumption is that the motives for investing in land are the same as those for investment in buildings.

The state of disarray in economics is illustrated by the failure to even agree on whether the business cycle exists. It is, the RICS report notes, "One of the longest standing and intensively researched topics in economics, and at the same time one which still provokes fierce dispute about whether such a thing exists, and, if it does so, why". That is why standard definitions of the business cycle "contain a thicket of qualifying conditions around a central concept that cycles constitute 'recurrent but not necessarily regular' patterns in a wide range of economic indicators".

Undeterred, however, the analysts stalk their elusive quarry with their equations in the rush to offer meaningful guidance to investors. Property is a key component of a portfolio of assets, but anticipating the trends is necessary if risk is to be minimised and profits are to be maximised. Well, is there a property cycle? The RICS report concludes: "In the final analysis, the absence of full statistical proof should not be taken as demolishing the value of the concept of the property cycle. It is even more difficult, using the same tests we have applied to property returns, to prove the existence of the business cycle in the economy".

Such accounts invite analogy with practitioners of the paranormal who seek to prove the existence of ghosts. Now you see them, now you don't... if they exist at all...

**K**NOWING when a cycle is to begin and when it will terminate makes a world of difference. The idea is to get in at the ground floor and get out before the lift goes through the roof.

Periodicity varies according to the phenomenon being measured. Some studies have identified nine-year cycles on the supply side of the building industry, together with longer "swings" of 15-20 years generated by obsolescence and replacement cycles in the building stock, which the RICS report characterises as "waves of urban development".

But without a theory that explains what drives activity which can be tracked in cyclical form, investors are in a quandry. How do they know where they are if cycles are irregular in character and timing?

Governments are also caught in the dilemma of not knowing the consequences of intervention. In Britain, the benefits of historically low interest rates, which are hovering around 5% (and which are being capitalised into higher land prices), is driving speculation in the land market. Should the Bank of

England, which is charged with operating a stable inflation policy and which is now responsible for interest rate policy, raise the cost of borrowing money? To do so would be to damage economic recovery in most of the UK.

With "over-heating" largely confined to the South East, how can the Bank of England cool the ardour of house buyers by raising interest rates without penalising the rest of Britain where the increase in house prices is modest and firms need to borrow money to keep their business flowing? Why are policy tools too crude to address a problem that is restricted to a particular geographical region? Might it be that the analysts have not yet materialised the phenomenon that is driving the business and property cycles?

The RICS analysis, for example, lacks a component which would explain the nature and timing of investment which sends capital growth soaring in the property market. A major collapse in the economy is always preceded by fierce – some would say frenzied – activity in this sector. But the quest for capital gains is driven by motives that are distinct from the need to derive rental income from the commercial use of buildings. The undifferentiated analysis – words like "property" and "housing" are blunderbuss concepts – may be concealing material phenomena in metaphysical shrouds. **ML**

\* "The UK Property Cycle", Research Project undertaken by Investment Property Databank, London: RICS, 1999.

## Exit God?

GOD'S ROLE in Scotland's system of land tenure has taken a beating at the hands of Stirling Sheriff Kenneth Pritchard, who has ordered the eviction of Chris Ballance from the land occupied by his hut overlooking a loch north of Glasgow

Mr. Ballance led a rent strike after his laird, Allan Barnes-Graham, raised the rates. In court, Mr. Ballance claimed that under feudal law God was the ultimate owner of the land, and would not condone eviction (*Land & Liberty*, Summer 1999: p 2).

But the Sheriff said that the Crown was at the apex of feudal law, not God.

Mr. Ballance announced that he would appeal, but shortly after the verdict his hut was burnt down. So was the hut owned by the tenants association's treasurer, Bill McQueen. A spokesman for Central Scotland Fire Brigade said investigations suggested that both fires may have been started maliciously.

The laird is reported as saying that he was appalled, but that the fires would not alter his policy of evictions against the hutters.



■ Chris Ballance

## London □ Glenda Jackson

### Land Tax "not on Blair agenda"

OSCAR-winning actress Glenda Jackson shocked the political establishment when she resigned her job as Transport Minister in Tony Blair's government on July 28, writes *Ian Barron*.

The reason for quitting, she said, was to free her to fight for nomination as Labour's candidate for the new post of Mayor of London.

Observers speculate that her departure forestalled being sacked for failing to find solutions to Britain's transport crisis. Her departmental chief, Deputy Premier John Prescott, was savaged in July by a powerful House of Commons committee, whose report exposed the failure of New Labour to deliver solutions to overcrowded roads and a deteriorating mass transit system.

The ultimate source of confusion in the Department of Environment and Transport may lie with analysis of the problem of congestion and the correct means for financing new infrastructure.

Transport economists increasingly favour a system of road charges as a way of rationing the use of overcrowded highways. A charge levied at peak-time travel is a levy on the occupation of a limited spatial resource, not dissimilar from parking charges. But Ms.

Jackson, who won Oscars for best actress in *Women in Love* (1970) and *A Touch of Class* (1973), has forcefully denied that the Blair government has any plans to introduce such an innovation to fiscal policy. In a letter she wrote dated April 13 1998 she stated: "I should first make it clear that it is not part of our policy to raise a land value tax".

But the Blair government does propose to introduce road charges. A Bill has been drafted, but Ms. Jackson's department has been criticised for being slow in pushing through the legislation.

One explanation may be the Prime Minister's reluctance to upset the middle class car owner. But the criticism has fallen on the shoulders of his Deputy, John Prescott. In the run up to Premier Blair's cabinet re-shuffle in July it was rumoured that Ms. Jackson's fate hung in the balance. But by jumping ship in a bid to become London's first Mayoress, Mr. Blair was relieved of the problem of having to make a decision on the future of the former screen star.

● According to the British Lung Foundation, pollution from road vehicles adds £11 billion a year to health bills.