HOUSING FINANCE: THE IMPERFECT EQUATION

MISS DELLA A. NEVITT of the London School of Economics is well known for her detailed studies of housing economics. Much of the factual and statistical work behind the Milner Holland Report was produced by a team under her guidance. Writing recently in *The Building Societies' Gazette*, Miss Nevitt drew attention to the influence that the availability of mortgage finance can have on the housing market. The influence on house prices has been particularly significant during a period of low construction rates.

According to Miss Nevitt, it seems possible that the output of new houses during the past twenty years, relative to the total stock of housing and the increase in population, has been less than in *any previous period in our history*. In 1938, 340,000 houses were built, while in 1964, a high output post-war year, only 336,000 new houses were produced. During the same period, however, building societies' advances have risen from £137 million to £1,043 million, with particularly rapid growth in the last three years. The loans have not only facilitated new house purchase but in Miss Nevitt's view have helped to enhance the market value of existing houses, possibly by an average of 35 per cent. during the period 1961-64. This rise in prices appears to follow an 18 per cent. rise in incomes, accompanied by a 75 per cent. increase in savings. While, normally, rises in income and savings would lead to increased production of houses, this does not seem to have happened, particularly since much post-war housing has been for local authorities.

Two legislative measures have had far-reaching consequences for the housing market. First, the 1957 Rent Act, which really began to bite in 1961, tended to make people more aware of the advantages of home ownership as rents rose to market levels. Secondly, the House Purchase and Housing Act 1959 increased the flow of funds by making available £100 million to building societies for mortgages on pre-1919 houses, and extended local authority lending powers, which action released £671 million between 1959 and mid-1965.

The increasing cost of house purchase in the metropolitan region, expressed as averages, was given by Miss Nevitt as:

Year	*Price*	*Income per week*	*Interest rate*	*% of Income required*	*Deposit* 20%
1961	£3,700	£20	6%	31%	£740
1962	£4,900	£23 10s.	6¼%	36%	£980

Looking to the future, it would seem that pressure for home ownership will continue, since purchase by mortgage enables people to "opt out" of inflation, to have absolute security and a value-increasing asset. This suggests that savings and borrowing for house purchase might rise to £800—£900 million a year in 1975, if prices remain steady—enough financial resources to back 120,000—150,000 houses a year in the metropolitan region.

The inference to be drawn from Miss Nevitt's studies is that building society funds in the last few years have risen disproportionately to the stock of housing, thus tending to increase prices. This is supported by the societies' claims that during the review period they have been faced with shortages of funds. In fact, the shortage of houses has meant that borrowers requiring loans of £2,000 a short while ago now need £4,000.

As Miss Nevitt pointed out, "it is of great importance to everyone that societies' funds should be used to call forth new dwellings and not used to create an inflation in the price of existing dwellings." The core of this problem is to be found in land prices and land availability, a field that Miss Nevitt left unexplored. With rising population, a demand for higher space standards and an unequal distribution of people in the existing stock of houses, a fiscal measure needs to be introduced that will lower land prices, encourage development and redevelopment, and not penalise those who seek profit in improvements as opposed to profits in land. An annual tax on land values and the removal of taxes on improvements is a prerequisite to spreading available mortgage finance among a greater number of borrowers. Unfortunately, the societies' themselves do not seem to acknowledge the significance of land economics.

Mr. James Riddell (Liverpool Investment Building Society), writing elsewhere in the *Gazette*, considered that if the Government genuinely wanted to solve the housing problem it should:

1. Allow as much private building for owner occupation as the industry can stand.
2. Repeal all rent control and give a pledge that it will not be reintroduced.
3. Encourage property companies to build as many houses and flats to rent as possible, and cut down local authority building as much as possible.
4. Allow rents to find their true economic level and then replace the present blanket subsidies by personal subsidies to those families who show that they need help.

Such measures are clearly desirable and a firm land policy to base them on would produce even better results in the field of housing.