

HOUSING: Fred Harrison with a high prices warning



● Bricks and breeze-blocks ... but is the building going to make a better Britain?

Dark clouds loom over the rooftops

BOOM TIME in Britain's housing market! Owners feel richer - *ARE* richer - as they watch the price of their homes leap in 10% bounds; £45 billion was added to the value of their houses last year.

And with building societies awash with a record £3 billion to lend, people are rushing to mortgage themselves as members of Mrs Thatcher's property-owning democracy.

It all sounds upbeat. The real value of houses in some regions has risen because prices have eclipsed increases in inflation and earnings. Oxford economist Walter Eltis predicts that this will now stimulate the economy: for with house prices rising faster than building workers' wages, it becomes more profitable to build.

"I think that's what will happen", says Mr. Eltis, a Fellow of Exeter College. "What we economists say is based on an assessment of probabilities. There is no question, is there, that house prices are rising? It is possible that the extra profits will go into builders' wages, but I think that is

unlikely, given the present state of the labour market."

The construction industry is one of the "leading sectors" which can help to pull the rest of the under-employed economy up by its bootstraps. So if the planners zone enough land for construction, building new houses will create new jobs.

It all sounds good, doesn't it? The best bit of economic news in a long time. Or is it? Economists treat such optimism with caution. They are right to do so, for there are some dark clouds looming over the roof-tops.

● The ratio of prices to earnings has risen steeply, so family budgets are being squeezed. Less will be spent on buying things in the shops. A drop in the demand for goods and services means a cutback in production and fewer jobs.

The house price/earnings ratio

peaked just before the onset of the recessions in 1973 and 1979. It looks as though we are racing towards another such peak, which bodes ill for the economy next year.

● Because people have to pay more of the money in their wage packets to finance their mortgages, they save less; and that means capital investment in industry suffers. This works as a break on the economy.

The overall effect is that the expectations of more and more families are crushed: they are priced out of the housing market. A drop in the sale of houses leads to a cutback in construction, which undermines the rest of the economy like damp rot in a jerry-built slum. Early in 1973, and in 1978, builders started work on fewer houses. This downturn in the building cycle helped to cause

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a general recession a few months later.

One economist who dismisses as dangerous the excitement over the state of the housing market is American economist Bob Beckman, a private investment consultant who airs his views every morning on LBC, the London radio station.

The rate of return on housing as an investment has been decreasing for 14 years, says Mr. Beckman, the author of *Down-wave*, a book in which he traces out long waves in economic activity. "Housing as an investment is very very unattractive," he goes on. "People have been led to believe that a mortgage is an inalienable right which a growing number of people are not able to finance, so they are ending up on the defaulters list.

"The current euphoria can

● *Fred Harrison is the author of The Power in the Land (London: Shephard Walwyn, 1983) in which he analyses the housing cycle's impact on the industrial economies of Japan, Australia, the U.K. and U.S.A.*

evaporate overnight. Britain cannot isolate herself from the real world. In America, house prices in four oil states have plunged and the houses are totally unsaleable. There was a similar situation in Corby, because of the problems with British Steel.

"Take a look at Ireland. House prices are down on average 25 per cent, from their peak, because unemployment keeps growing. Yet there is lots of money in the building societies in Ireland, too.

"In Britain we have pockets of strength showing abnormal increases in house prices, which push up the average. But what will happen in West Cornwall

where the tin mines are now going to disappear? What will happen in the coal districts, now that the fall in the price of oil has removed the competitive advantage of coal?"

Already, says Mr. Beckman, the early warning signals are bad: the prices of raw materials are falling, which implies that people expect a contraction in manufacturing. "What type of security do you have in an environment where unemployment is so ostentatiously high and is an intractable problem?" asks Mr. Beckman. "No-one employed in industry has job security.

WHO is right, the optimist or the pessimist? Britain's builders say that, while wages may be under control, they cannot get enough land at the right price and in the right place. The government, however, says that the free market is regulating prices. And town hall planners say they have allocated enough land to meet demand for the next five years.

Somebody must be wrong.

If the cost of land is racing ahead of house prices – so that builders cannot fix prices that families can afford – the market is crippled. This is not a reasonable deduction, says Mr. Eltis, for "economic theory would say in general that land prices respond consequentially to the desire to use it." In other words, land prices cannot outpace demand.

This theory ignores the fact that the land market is a monopolistic one, which allows owners to hold out for unrealistically high prices. All the evidence shows that, with declining interest rates and rising house prices, the biggest profit margin is made by landowners rather than builders. That appears to be the current situation.

The ultimate price for the current boom, I fear, will be paid by all of us. For, if history is a reliable guide, the roof is once again about to fall in on the British economy.

LAND OF 'RISING

MYTHS'

SOOTHING reassurances that Tokyo's land price boom cannot have a wider impact has been subjected to a severe critique by the Mainichi Daily News, in an editorial titled "Frenzied Land Prices".

Land prices in the central districts have nearly doubled in two years, and the National Land Agency has expressed the view that this was a "localized phenomenon of the city center", and that "there is no anxiety about general housing land being affected".

In fact, says the newspaper, "land displays a diabolic character. It draws the surrounding areas into the wave of price increases. At times it destroys the functional balance between a city and the people's livelihood."

And there was now clear evidence that

soaring land prices had crept out from the commercial areas to the general housing districts in the south-western part of the metropolis. "This is clearly a danger signal."

Japan like the rest of the non-Communist world was afflicted by two periods of frenzied activity in the land market in recent years: in 1973-4, and 1980. Both occasions preceded the downturn in economic activity, in Japan and other industrial nations.

Officially, the supply of urban land in Japan is close to the demand for its use. This reassurance is matched by statements by planners in Britain, for example, where builders nonetheless persist in claiming that they cannot

find enough land at the right price to meet the potential demands of the market for new houses. (See Fred Harrison's report on this page).

The National Land Agency is suggesting that, as a means of controlling prices, there ought to be firmer controls over transactions in the land market. Worldwide experience, however, suggests that this is a futile method of curbing price increases.

The Mainichi Daily News, in its April 4 commentary, comes closer to a lasting solution when it declares that the authorities ought to take a closer look at, among other things, the land tax. And it adds:

"Above all, the 'mythology' that 'land prices are bound to rise' should be eliminated in some way."