

# Housing: the economics of chaos

BRITAIN'S housing market is supposed to be in a state of revival this autumn after a protracted period in the doldrums. Even so, 1,000 homes a week are still being re-possessed from families who bought during the boom years of the late '80s, writes Paul Knight.

Housing policy is a case study of everything that is wrong with the modern economy. A number of statistics reveal that the so-called market does not function effectively on the principles of supply and demand.

Nearly 500,000 households in England alone need affordable rented housing. This reflects demand which has outstripped supply for many years.

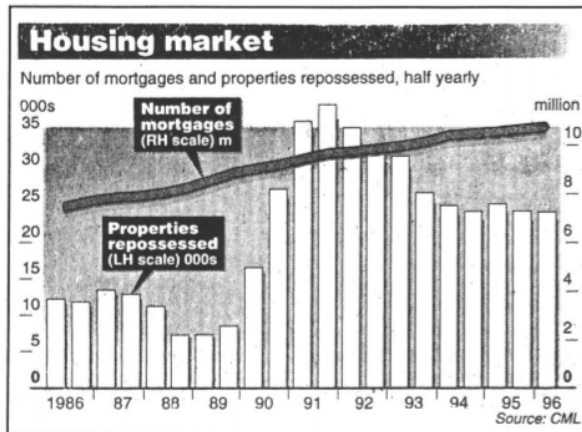
There are about 864,000 empty houses in Britain. The government is at a loss about how to encourage the owners to make these properties available for the families that need them.

The construction industry is under-performing, but the price of land continues to be a major obstacle for builders - and especially a significantly large number of people who want to build their own homes.

WHERE DOES it all go wrong? Why can't the economy function properly when everybody appears to want it to do so?

The scale of the challenge is well enough known: the government estimates that an extra 4.4m households will need to be accommodated over the next 20 years. This indicates a volume of demand that ought to encourage everybody who wants to see the return of full employment and a rise in people's living standards.

But where are all these people to live?



That ought to be the first question requiring realistic analysis. *The most important dynamic consequence is the price of land.* With more people putting pressure on a finite supply, we can expect the price to rise even in a market from which monopoly power has been banished or controlled.

But the government and its advisors, and the academic industry that is pre-occupied with the housing sector, choose to focus on land use as a planning issue. They keep the debate shallow, focusing on the politically tetchy issues such as the Nimby factor - Not in My Back Yard.

Environmentalists have failed to add depth to the debate. They want to avoid construction on green field sites, pointing to the substantial number of vacant sites in urban centres. But they do not offer a critique that identifies land monopoly as the ultimate obstacle to a fluid market in which everybody could be decently housed at affordable prices.

As for the media commentators, they have once again reached for the cheap headline rather than analyse the housing trends properly. Every press release from the building societies provides the peg for yet another alarmist story. Either the housing market is crashing (as when mortgage applications dip); or the boom

days are back when the growth of sales of houses is sustained for two months in a row.

HISTORY does repeat itself, with tedious regularity when it comes to the housing sector. Britain is climbing painfully out of the last recession that was forecasted many years before it happened on the strength of historical trends in, among other sectors, the housing market. In the early '80s, analysts who focused their

attention on trends in land prices were able to predict that the British economy would crash into a trough in 1992. They were right: it did.

The climb back follows previous patterns, and there is no reason to believe that there can be a return to a rise in house prices of the kind that were seen in the late 1980s for another ten years. But that does not mean that house prices are now benign. Unless remedial action is taken to curb land speculation, there will be a mini property boom of the disruptive kind in less than five years from now. But until then prices will grow at gentle rates and not cause undue problems for whichever government is elected next spring.

This is cold comfort for the families today who are still suffering from the backwash of the last housing boom. Many of them will have to continue financing mortgages on properties that are below the price that they paid for them back in 1990.

But memories are short. Unlike bricks and mortar, we can't manufacture more land. Therefore, the children of the families who are suffering today will be the ones to suffer in twenty years when we are back in the throes of the next post-property boom crisis.