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Tackling the UK housing crisis: is supply the answer?

Peer review comments

Professor Glen Bramley (Heriot-Watt University)



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It is fair to criticise an exclusive and excessive focus on housing supply, which has been a characteristic of some government documents, but this commentator (like other independent commentators) does not suggest that this is the only solution to the problems in the housing system. We recognise for example the roles of taxation and of financial regulation.

The discussion and presentation of evidence for supply inadequacy (over an extended period) is partial and selective, which appears to be geared to supporting a particular stance, contrasted with the 'conventional wisdom', rather than getting a full picture.

For example the examination of new build additions (s.2) fails to relate to the underlying size of the population/stock. You can interpret the spikes in net additions in 2006 and recently as evidence for inadequate supply, as government deregulation of change of use /conversions connives with developers willing to create shoddy housing units in unsuitable building forms. Access to home ownership for younger households was falling well before the GFC, supply responsiveness had dropped away in the late 1990s, and there was rising evidence of housing need problems, reversing long term trends of decline in such indicators. This evidence was assessed in Barker (2004), subsequent official studies and analyses of longitudinal surveys (Bramley 2016).

To present comparisons of households and dwellings as unproblematic indicators of adequacy of supply (as in section 2) is almost completely wrong-headed. Once you allow for sharing and various other marginal groups then, given the way we define households, there is always going to be an apparent balance between the two numbers (there is an underlying identity relationship). There is good evidence that household formation (particularly by younger adults) responds in a non-trivial way to incomes, housing costs/affordability, and supply/access (e.g. social sector lettings), while at regional and sub-regional levels population numbers respond through internal migration flows to these factors as well. To plan housing requirements on the basis of household projections, particularly in a tighter market situation, is to engage in a circular process, and the same applies to this author's attempts to dismiss claims of housing supply shortfall, certainly in the southern part of England. To assess housing supply adequacy you need to look at a basket of indicators (Bramley and Watkins 2016, Bramley 2019).

It may be worth looking at measures of housing space consumption among this basket (as is done briefly in s.2), but I suspect the global growth reported here is affluent older owner occupiers building extensions. I would agree that there is a maldistribution of space issue here which maybe needs to be addressed through property taxation.

The the conclusion of this section, that there was 'little doubt' that supply had outstripped demand/requirements, based on population or household growth, seems unwarranted in the light of the above, and I suggested that international comparisons suggested otherwise. In the first decade or so of the 2000s England had the lowest rate of housing supply increase and nearly the highest rate of population growth across European countries (Whitehead 2014). The author seems to believe that such evidence is irrelevant, in this section, although not in s.4.

In relation to s.4, I found the focus of the discussion of the determinants of house price growth via the UCC factor unconvincing. By far the dominant factor alongside low interest rates is expected rate of capital value appreciation, and I think the image of this as a calm rational story with little to excite the imagination is fairly wide of the mark. In a sense, the author comes around later to accept this in talking about speculative demand. When bringing in international trends he raises the question of why some countries /cities have seen much greater price inflation, but do not consider the obvious trigger and reinforcing factor that London, likely certain other world cities, has manifest excess demand for housing (and constrained supply).

Increased housing supply is part of the solution to the manifest housing problems (s.5), not just because of the gradual moderation in price levels it can achieve but also perhaps more importantly because it enables much more of other more direct solutions, notably the building of more social and intermediate affordable housing in mixed developments funded by land value capture.

In section 6 there is a discussion of younger adults living longer with their parents as an aspect of reduced household formation. I think that all three mechanisms 1-3 identified in this section have been manifest. The combination of high house prices with an effective cost of owner occupation for first time buyers which is increased for those without access to wealth by deposit requirements, less favourable mortgage terms for high LTV borrowers, prudential regulatory requirements on LTI, has contributed to this. Despite this choking off of FTB demand, speculative investment in housing (especially in London) and the continuing substantial move into Buy to Let by established better-off households, has meant that while prices are pushed up rental supply has run ahead of demand or in step with it. This in my view accounts for the relatively low growth in rent levels. This may not be sustained in the future as taxation and regulation bite on BTL.

On hidden households and migration, there is good micro-econometric evidence that both younger household headship and being a concealed/hidden household are systematically affected by housing affordability and supply (including of social rented lettings) in the housing market area where people live, and this is in models which control for ethnicity or migrancy (Bramley et al 2010, Bramley 2016, Bramley & Watkins 2016). It is likely that new migrants will be more likely to experience sharing and crowding when they first arrive but they may be expected to assimilate in the longer term and converge on host country norms. Since Britain/England saw exceptional levels of migration in this period, the patterns described are to be expected, but do not invalidate the argument that affordability and supply affect headship and concealed households.

Focusing on overall household size is misleading as this will be greatly affected by the ageing of the population. Most of the older cohort are comfortably housed and comfortably off economically. It is younger adults who are under pressure and you need to look at their situation. There is a parallel issue in relation to home ownership rates, even before GFC (s.7), with the favoured cohort of new homeowners from the 1980s ageing into retirement. However, I absolutely agree that there are big distributional issues involved here as well.

Looking at the conclusions, I do not agree with points 1 and 2, as there is clear evidence from my own work and others (notably Meen 2011; see also Bramley 2013 review) that housing supply does have an impact on house prices and affordability in the medium to longer term. Of course other factors are important, and have been important during the period in question.

I partly agree with point 3 about distribution being important, but suggest that general market supply can facilitate some corrective responses, in the UK context, through the use of affordable housing requirements within the planning system. I agree with the conclusion 4. that macro (and micro) prudential regulation are important. The problem has been (a) lack of such regulation pre-2007 (b) differential application to FTBs vs BTLs post 2008 (c) lack of measures to curb international speculative flows.

I tend to agree with some of what is being said in conclusion 5, about mortgage finance tending to discriminate against FTBs. Policy will find it hard to push OO up to the levels previously targeted and aspired to, and certainly not without some further measures, which may increase risks across the banking sector and costs/liabilities for government. Policy should look at better regulation and tenure security in private renting, while at the same time promoting a higher level of social and intermediate affordable housing within the supply mix.

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