

## [Is it possible to have a rational debate about housing?](#) [1]

Written by [Dr Eamonn Butler](#) [2] | Tuesday 8 January 2013



Various financial pundits in Britain's newspapers have been warning that house prices won't be rising any time soon. This is seen as bad news for the British economy, which has been quite largely driven by the wealth that people have in their homes, encouraging them to spend, spend, spend.

UK average house prices are well below their pre-2007 peak and have been flat for the last two years. Indeed, average prices actually fell 1% in 2011. So UK householders aren't feeling as well off as they used to. They are hanging onto their cash instead of spending it, prompting general economic gloom.

In the boom years, people put money into property. Now, in the bust phase of the cycle, people have more pressing needs than buying grand houses. And mortgages are tighter: the banks are being more choosy, having had their fingers burnt earlier. Lenders they are asking for higher deposits which ? at today's low interest rates ? first-time buyers are finding it hard to save. How different from when the banks were offering 110% mortgages. And no wonder the housing market is down, with home ownership its lowest in a quarter century.

The government's first solution is to keep interest rates rock-bottom ? so when you do borrow it is cheap to do so. But that just keeps people in houses that in normal times they couldn't afford. As and when interest rates do edge up, so will defaults. The second plan is to subsidise mortgage risk. But there has been scant take-up, as uncertainty is still preventing people to stake their fortune on buying a new house. And it is the people who can afford to borrow anyway that have been helped, not first-timers.

However, a good Austrian economist would look below the averages and observe some profound diversities in the UK housing market, which blanket policies are not going to change. While most of the country reports falling house prices, London prices are edging up. That is surely not surprising when only 18,000 new houses were built in London a year ago, despite a population increase of 100,000. Londoners are being squashed into smaller and smaller homes when they actually need new ones.

Planning policy is restricting supply, while demand is soaring. Not just natural population rise, but immigration, and plenty of rich foreigners looking for somewhere safe to invest their money rather than trusting to put it in their local banks. (Think Greece, Italy, Portugal...) That is why, in the swanker parts of central London, prices are not just rising but booming.

And yet my housing-minister friend Nick Boles MP got roundly beaten up for suggesting even a small amount of new development in the 'green belt', though in the age of factory-agriculture, the 'green belt' is more like inaccessible prairie than bucolic haven. There are so many vested interests, built up as a result of decades of housing and planning policy, that I fear this is yet another issue on which rational debate is

nigh impossible.

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