

## [The mirage of 'affordable housing'](#) [1]

Written by [Whig](#) [2] | Friday 24 August 2012



The publication of the [Montague Report](#) [3] into the barriers to institutional investment in private rented homes threw up some interesting headlines. Most of the [debate](#) [4] over the report actually seemed to concentrate on a proposal to relax local government requirements on developers to build 'affordable housing?', as this is imposing higher costs on them as they are forced to sell at below market rates. That local government are free to do so if they wish to suggests that there may actually be some interesting reasons why they have not been doing so, perhaps related to Public Choice dynamics at work? for instance, do local governments have a vested interest in reducing development?

The housing market is a hugely complex area? the Montague Report itself is only examining a particular aspect of how to expand availability in the private rented sector. In many respects it is actually quite a sound report which, apart from this recommendation also rejects such terrible ideas as rent controls and Government guarantee schemes. As the ASI's Ayn Rand lecture by John Allison of the Cato Institute [pointed out](#) [5], the latter is the route the US has gone down and it has proven disastrous. Similarly, rent controls and stricter regulation of landlords leads to less choice of housing and more landlords operating outside of the law altogether.

Confusingly, however, is what is actually meant by the term 'affordable housing?' in the UK. In an economic sense, affordable housing usually means a comparison of house or rental prices to median incomes in a particular area. There is no doubt that the UK faces a huge problem of affordability in this sense as this [report shows](#) [6]. However, in UK Government-speak, affordable housing [actually refers](#) [7] to 'social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market?'. What is meant, therefore, by affordable housing is nothing to do with its affordability but instead the term simply refers to availability of socialised housing. There is no doubt that this confuses the debate: when we hear the term affordable housing, it has nothing to do with affordability of that housing.

For the record, the UK has a high proportion of socially-owned housing by international standards (20%). It must also be said, however, that even a description of affordable housing related to income is arbitrary and flawed because it carries a value judgment as to how much income any particular individual ought to spend on housing as opposed to other items of expenditure or saving, as well as an arbitrary assessment of

quality of housing.

It is quite clear that many government efforts to provide less expensive housing (to avoid confusion) are actually not merely failing to do so but are actually counter-productive. As the Montague Report itself shows, by forcing developers to build 'affordable housing', local governments are hampering supply and are thus making housing less affordable! Unfortunately, the Montague Report also argues for restrictive covenants on build-to-rent housing, noting that rental and owner-occupied housing are competing for the same land. This is treating the symptoms rather than the cause, which is shortage of land for development.

A free market definition of affordable housing must ultimately be the price that consumers are willing to pay for housing. Only consumers should ultimately decide where they want to live, in what kind of dwelling and by what financial arrangement – constrained by the supply of course. Putting it simply, if a million houses were rapidly built around London, it is pretty clear that house prices would fall generally and that this would increase affordability. Even if these were a million mansions, this would still increase the affordability of housing in general. Such building cannot occur, however, due to planning constraint. As the Hilber and Vermuelen report concludes 'Regulatory constraints imposed by the British planning system can to a large extent explain the high house prices'.

The real, long-term problem in the UK housing market – rental or owned – is huge-scale government intervention and distortion of the market. Whilst this has occurred in a number of areas, the constriction of the supply of housing and huge manipulation via the planning system is the [most serious cause of the UK's housing shortage](#) [8], as this IEA report shows. Even relatively sensible interventions to solve this problem, such as the Montague Report and the National Planning Policy Framework are unlikely to have any substantial impact without major planning liberalisation.

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