

Why is Housing Policy in Such a Mess?

*John Stewart Memorial
Presentation*

Christine Whitehead
London School of Economics

*HBF Policy Conference, 2023
May 11th, 2023*



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Immediate Problems

- Almost too many to mention.
- The most discussed issue is obviously housing numbers: by making them advisory at the local level has the government made a major mistake?
- The Minister argues not, as the mandatory target system does not work - but why they think advisory targets will work better is totally unclear - especially given LA responses in the South East.
- Those with updated local plans do in general do better - but cause and effect are unclear. It does not follow that it will apply in a different environment.

The Mini Budget

- Clearly had massive immediate effects on confidence and interest rates.
- What immediately mattered most was the incompetence - which has left a lasting impact.
- Interest rates were anyway going to rise as inflation took hold across the world.
- Particular issues around fixed interest rate mortgages both for owner-occupiers and landlords - which will unfold over the coming year.
- But also important effect on construction costs and productivity as well as economic stability.

Delays in Housing Related Legislation

- **The Planning Bill:** so many amendments it is not at all clear whether it is still coherent.
- **Rental Reform** - promised for current session but now only before the next election. But the effects on private rental supply are already being felt - without any of the benefits.
- Somewhat similar situation with respect to **leasehold** reform.
- Plus how long will they all take to implement? E.g. Infrastructure Levy to be subject to test and learn.
- And more general concerns about legal challenges.

Three Major External Factors

- **Covid-19:** broke the link between GDP and household income and so between economic stability and housing demand. Governments everywhere thought that the decline in GDP would reduce demand for housing. But in practice Covid policies to maintain incomes, together with working from home, allowed many, mainly existing home owners, to demand more - with consequences for house prices.
- **Financialisation of housing:** an international phenomenon, mainly an outcome of the Global Financial Crisis and Quantitative Easing. This made housing, as a low return but stable asset, much more attractive and brought institutional and international investors into the housing market. This has increased demand and prices - and has helped break the links between local incomes and local house prices and rents.
- **Brexit** and its impact on the labour market, skills and construction costs.

Too many decision makers, too many objectives

- The Department only has very partial control over housing policy.
- The Bank of England and the Treasury together control monetary and fiscal policy and have far wider objectives than housing.
- Until relatively recently the Bank simply saw housing as having to take the consequences of macro-economic stabilisation policies. At least now they recognise there are housing consequences, although they may not adjust policy in relation.
- They also frame mortgage market conditions - e.g. in relation to affordability tests (now removed).
- The Treasury has control of all budgets - so Dept always has to negotiate funding.
- DWP controls Universal Credit and housing support to individuals (except for Discretionary Housing Payments - which have been cut) tho rent setting lies with the Department.

Too Many Policies

- Even within the Department there are too many policies - which cannot all be made consistent and coherent.
- Some years ago we kept tabs on the numbers of policies that the Department had implemented - it was close on 200 in the relevant Parliament.
- The Minister said wasn't that marvellous!
- The current approach eg with multiple consultations associated with the Planning Bill - (and little evidence that they take any notice of what consultees say) appears to have little substantive value.



Policy Inconsistencies and Complexities: the Infrastructure Levy as an example

- The initial proposal for the Infrastructure Levy was very straightforward - a single rate across the country set by the government.
- Was soon clear this could not work and the proposal is now locally based and potentially extremely complicated - made more difficult by the continuation of S106 in some contexts.
- Most importantly it inherently puts most of the money into high value areas, leaving levelling up areas and those with mainly brownfield development with inadequate support.
- The Ministerial responses on this increasing spatial inequality have not identified alternative sources of funds.
- The complexities mean it will at best take years to implement but also is likely to lead to legal challenges.

Housing Fundamentals

- Demand can (and does) adjust rapidly to policy change;
- Supply can only increase very slowly - with, even at the best of times, new build accounting for far less than 1% of the total stock. So changes in demand lead almost automatically to increases in prices ;
- As importantly supply adjusts asymmetrically. Output can readily be put on hold but takes time to build up again - so every time the environment turns nasty output is lost;
- Policies to improve the use of the existing stock are also seen to be politically difficult - whether they are incentives e.g. to downsize; or taxing land/housing values to take account of rising house prices.



Is Housing Policy a Mess?

- The answer is clearly YES - and probably a worse mess than for some time.
- But it is not all the Government's fault - some things are simply very difficult to address. In part it is because so few things are actually directly in their control. But there are also signs that government in general is overwhelmed and housing is suffering as a result.
- Realism requires that macro-economic concerns must take precedence BUT to achieve housing objectives within this environment a more strategic and positive approach to housing policy is an absolutely necessity.
- This requires both cultural change in attitudes to new housing development and a common understanding between different parts of the government both national and local, the Bank of England, mortgage suppliers and housebuilders.
- Is this too much to ask? History would suggest it probably is.



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