

### Are more council homes the answer to Britain's housing shortage?

This afternoon the Chancellor will be announcing the first Autumn Budget. Housing is being trailed as a major component of it. But what *can* the Chancellor do and what *should* he do? Here are a few quick thoughts. We'll be exploring some of these themes in our forthcoming publication, *From NIMBY to YIMBY: how to build more homes and win votes?* Watch this space...

First of all, **Britain does need more homes**. There has been some unhelpful commentary recently that Britain does not have a housing shortage and that it's all about loose credit policy. This is nonsense.

- Britain is provably less good at building a sufficient number of homes than most other countries. Since 1980 Britain has managed consistently below average percentage increases in housing stock. Since 1990 Britain house stock growth has been 40 per cent the European average. In consequence, Britain has a below average number of homes per resident (one for every 2.3 people as opposed to a European average of every 2 people) and an even lower number of homes per household (0.99 as opposed to a European average of 1.12).
- Britain builds some of the smallest new homes in Europe (average size of 91 square metres versus a European average of 101 square metres).
- Long term real house price rises in the UK are the highest in Europe. Prices have increased by 378 per cent since 1970 as opposed to an OECD average of 94 per cent. The house price to income ratio has not just doubled since 1997. It is also the worst in Europe particularly in London and the South East.
- The UK housing market is not responsive to price rises (price elasticity of supply is 0.39 which means that for every ten per cent increase in price only just under four per cent additional new homes are built).
- There is some (sort of) good news. The crisis is essentially one of London, the South East and a few other hot spots. High prices and low affordability are not yet feeding through into the highest overburden rates (a measure of the proportion of households having to spend more than 40 per cent of their incomes on housing). This is presumably because many homeowners bought their homes many years ago and due to lower prices outside the South East. Nor is overcrowding an issue at the national level though this appears to be changing in London. Finally, elasticity of supply though poor is not an outlier. The British housing market is less responsive than most other markets but the French, Belgian and Dutch markets are all similarly unresponsive or worse (price elasticities of 0.36, 0.31 and 0.19 respectively).

Secondly, **there is a difference between actions which will build more homes and actions which will address the root causes of the British housing shortage**. Too many of the proposed 'solutions' to our challenges will build more homes but don't go to the root of the problem. In fact, many of the elements of Britain's situation which are frequently criticised are comparable to the situation in many other countries or in some cases better.

For example, **forcing people to fill empty homes is not the answer** (or only in very specific places). Britain actually has the lowest (and falling) proportion of empty homes in Europe with vacancy rates less than a third of the European average.

In October 2016, there were approximately 200,100 empty homes in England. This was a reduction of 118,500 (or 37 per cent) since 2004 when there were about 318,600. It also only represents about one year's worth of the government's annual 200,000 target. This reduction in empty homes is hardly surprising in the context of rising home prices.

*Long term empty homes in UK 2004-16*

Date	Empty homes
2004	318,642
2006	314,719
2008	326,954
2010	299,999
2012	254,059
2014	205,821
2016	200,145

A pan-European comparison done by *The Guardian* was very imperfect. For the UK it used short term vacancy numbers which is a misleading data-point. It also focused on countries with lots of holiday homes. Nevertheless, it still revealed that Britain has a low number of empty homes compared to other countries. Britain's empty rate home rate was half that of Germany's. This is not to say that there are not many cases when the state or civil society should encourage empty homes to be 'brought back into use.' But it is categorically not the strategic answer to the problem.

*Empty homes across Europe*

Country	Number of Empty Homes	Population	Empty Homes per Capita
Ireland	400,000	4,574,888	8.7%
Spain	3,400,000	46,815,910	7.3%
Portugal	735,000	10,562,178	7.0%
Italy	2,700,000	59,433,744	4.5%
France	2,400,000	64,933,400	3.7%
Greece	300,000	10,816,286	2.8%
Germany	1,800,000	80,219,695	2.2%
UK	700,000 <sup>1</sup>	63,182,180	1.1%
<b>Average</b>			<b>3.7%</b>

Is higher property taxation the answer? Or, put differently, do lower property taxes explain higher property prices? In fact, contrary to received wisdom, **British property does not appear to be comparably undertaxed**. Britain's levels of property taxation are actually above the simple European average (1.0 per cent as opposed to 0.9 per cent).

There may or may not be a case for higher property taxes on grounds of social equity or desired redistribution but in purely comparative terms Britain does not under-tax property. The same IMF analysis in 2005 taking account of tax rates then in place as well as estimates on turnover and other features actually found that the UK taxed property slightly above the European average.

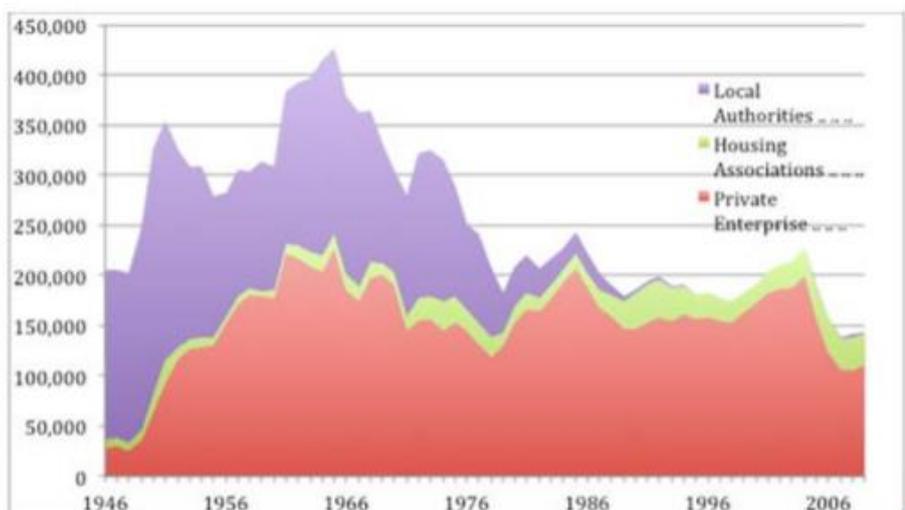
<sup>1</sup> UK number is different from table above as is all vacant homes not just long term vacant homes and is for all of UK.

Property related taxes, 2005

Country	Average Property Tax Rate	Capital Gains Tax Rate	Gift Tax Rate	Wealth Tax Rate	Stamp Duty Rate
Denmark	2.0	24.5	35.5	0.4	4.4
Belgium	1.6	21.7	39.4	0.0	11.3
Germany	1.5	34.8	30.1	0.3	3.5
Sweden	1.4	18.4	21.2	1.8	2.3
UK	1.0	26.7	30.0	0.0	3.5
Austria	1.0	35.0	22.1	0.3	6.0
Greece	0.8	5.5	28.5	0.0	12.0
France	0.7	39.3	44.4	1.0	1.0
Ireland	0.7	27.5	31.6	0.9	4.5
Portugal	0.6	13.5	19.3	0.0	0.8
Netherlands	0.5	6.3	36.4	0.5	6.0
Norway	0.5	24.7	17.0	1.2	
Spain	0.4	30.9	15.6	1.1	
Finland	0.2	26.8	11.8	0.9	
Switzerland	0.2	25.0	4.7	0.2	
<b>Simple average<sup>2</sup></b>	<b>0.9</b>	<b>24.0</b>	<b>25.8</b>	<b>0.6</b>	<b>5.0</b>

*Do we need to build more council homes? Well yes and no.* Many have asserted that the problem with housing affordability in the UK is not a matter of overall supply but of ownership patterns. In other words, that the UK has an insufficient number of homes rented at below market rates from the government or other charitable bodies. There has been much talk of the 'financialisation' of housing. It certainly *is* true that since the mid-1970s the state has largely withdrawn from the construction in the UK and that this has only partly been recompensed by the building activity of Registered Social Landlords.

Annual completions of dwelling, 1946-2012 by developer



<sup>2</sup> Not weighted by volume of housing per country.

There are profoundly different views on the social justice of different housing tenures and the political economy of housing on which Create Streets does not take a view. Certainly, it seems highly likely that were the state to build more homes, more homes would be built in aggregate. Equally, it is hard to imagine a 'solution' to Britain's housing needs which does not involve more state house-building. Certainly, both main political parties have reached this conclusion.

However, looked at comparatively it is impossible to argue that the UK is an *outlier* in terms of social housing provision. According to a 2005 IMF paper using data sourced from the European Mortgage Federation, there is a very wide range of proportional social housing provision from 4 per cent in Portugal to 35 per cent in the Netherlands. This difference is a multiple of nearly nine. The unweighted average is 11.9 per cent. In the UK, the figure is 8 per cent. Germany (which has starkly greater price stability and a much better house-building record than the UK) is only modestly higher at 12 per cent. Belgium (which also has much more price stability) is actually lower at 6 per cent. It may well be that a lack of public sector building is a factor in lower UK house building. But it is hard to see it as a primary driver.

*Percentage of homes publicly and privately owned*

Country	% of housing stock rented from government and Social Housing
Netherlands	35
Austria	23
Denmark	20
France	18.9
Finland	15
Germany	12
UK	8
Ireland	7
Belgium	6
Italy	5
Portugal	4
<b>Average<sup>3</sup></b>	<b>11.9</b>

In short, both major parties are right to want to build more council houses. It will increase the supply of new homes. And it would make new housing affordable to the people who need it most and who are at risk of being most. These are good things. But it does not go to the root of the problem of our undersupply of new housing.

***What is the root problem?*** It is best thought of as a matter of risk. To build, builders need certainty. A crucial part of the certainty is also about planning. Never forget how profoundly odd the British planning system is, the result of an unintended alliance between regulation-suspicious free marketers and planners, protective of their professional discretion.

The result is a system which remains socialist in its scope but common-law in its application. It means that what can be built on a plot of land is far more open to debate than in many other countries. Most

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<sup>3</sup> Not weighted by volume of housing per country.

are more rule-based with greater certainty about what is deliverable. They start with the position that you have the right to build on your land, but you just have to do so in certain ways.

Our system starts from the opposite position. Other than a few permitted developments, you have no right to develop until the government grants it to you. However, what you can build is the subject of potentially infinite debate. We have it the wrong way round.

The problem is not planning *per se*. It is planning risk. How much you can pay for land, whether and what you can build is uncertain. The cost of “winning” planning permission (a telling use of words) is hard to predict and not proportionally less for smaller sites. All this creates non-trivial barriers to entry to development, far greater than elsewhere. The government (and the opposition’s) dedication to building homes is welcome. To do so they will need to move democracy upstream. We need a more visual set of provably popular housing patterns which can be argued over democratically and then delivered with more speed, efficiency and certainty. It is time for a direct planning revolution.

The good news is that although such changes involve political risk, they are not actually that expensive. And surely that is good news on budget day?

Nicholas Boys Smith

**CREATE streets, 22 November 2017**

*This short essay is taken from our forthcoming publication *From NIMBY to YIMBY: how to build homes and win more votes*. You can see more about this research programme here: <http://dev.createstreets.com/love-the-nimby/>*