

The problem of housing supply



Alex Marsh

About the author

Alex Marsh started his blog – *Alex's Archives* – in October 2010. The blog's audience has grown steadily. Since June 2012 it has featured regularly among the Top 100 politics blogs in the UK on the ebuzzing.com monthly ranking.

The blog covers a wide range of topics, but its focus is issues relating to housing and social policy, economics and public policy, and politics under the Coalition government.

Alex's posts have also appeared on group blogs including Dale&Co., Liberal Democrat Voice, the Guardian Housing Network blog, LSE British Politics and Policy blog, and LSE Impact of Social Sciences blog.

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Preamble

My blog covers quite a wide range of topics. I write about whatever happens to be interesting or preoccupying me at the time. Posts are often triggered by an issue currently in the news or by something I've read. If a piece in the mainstream media or a post on someone else's blog is my starting point, then I may well try to link my discussion, explicitly or implicitly, to an argument or a concept from a relevant academic literature. This is always done informally.

Housing markets and housing policy in England have been the focus of my academic career for more than twenty years. So housing inevitably features prominently on my blog. I return to housing policy regularly and I've covered a wide variety of topics in the field.

This collection brings together a selection of my posts since autumn 2011 on issues relating to housing supply. The focus is more on the policy and politics of the issue than on the nuts and bolts of development on the ground. My aim in putting the collection together is to make the arguments available to readers who prefer to digest their reading material in more conventional form. I am making the arguments accessible to those who have little interest in rummaging around in my blog archive.

The posts are presented in broadly chronological order, primarily because they have been generated in response to developing policy agendas and hence they have, to an extent, their own sense of forward momentum.

For this collection I've edited the posts slightly for grammar and punctuation. Otherwise, the posts are presented pretty much as they can be found on the blog.

Alex Marsh, Bristol

June 2013

A new approach to housing policy?¹

22nd November 2011

The much anticipated, and heavily trailed, housing strategy for England – *Laying the foundations* – arrived on Monday.² The Government's claim is that the strategy will “get the housing market moving again”, while at the same time “laying the foundations for a more responsive, effective and stable housing market in the future”. How do those claims stack up?

The document presents a plausible portrait of the situation we find ourselves in, in terms of the housing shortages and affordability problems. And some of the diagnosis of the problem is equally sensible. The problems of the housing market are not of recent origin. They are the product of some longstanding failures. To take one example, as the Prime Minister and Deputy Prime Minister observe in the foreword: “for decades in Britain we have under-built”. The Government is promising that it is taking “a new approach”, which “marks a decisive break with the failed policies of the previous Government”. I wouldn't seek to defend Labour's housing track record, but this seems a cheap shot, given the nature of the problems. It is also the case that some of the deep presumptions that have caused these problems – such as housing being the most appropriate vehicle through which households can and should accumulate wealth – are reinforced rather than questioned in today's statement.

Much of the housing strategy document is, in fact, simply bringing together in one place a number of policies and initiatives that have already been announced. It is hard to argue that placing them between two covers transforms them into a coherent strategy.

The document contains many initiatives and issues that could be examined at length. Much of it is about incentives. It is about curbing perverse incentives and creating incentives to act in ways that further desired political and social objectives. There are some sensible, credible and welcome policies such as promoting the community and self-build sector, developing a register of public land that is potentially available for development, acting to bring empty homes back in to use and tackling unlawful subletting. But it has several more problematic aspects. Some of those – like the impact of the reforms of the local housing allowance – have already been debated.

I wanted just to pick up on a few points.

The most high profile proposal is for the Government to participate in an indemnity scheme to allow buyers to access new build properties with 95% mortgages. It is part of the Government's short term plan to “get the housing market moving”. What is this trying to achieve? The superficial answer is that it will allow first time buyers without a large deposit to access the home ownership sector. So it helps with affordability problems.

¹ Originally posted at Dale&Co. (The post is no longer available online at that location.)

² <https://www.gov.uk/government/publications/laying-the-foundations-a-housing-strategy-for-england--2> (Last accessed: 25/11/12)

However, this answer doesn't really stand up to scrutiny.³ House prices are still substantially out of line with median earnings. So we could argue that what first time buyers need is price reductions not assistance with accessing prices that continue to be over-inflated. Particularly if there is a risk that interest rates will rise. However, allowing prices to fall further will impinge upon Bank balance sheets, reduce the wealth of older home owners, and put more existing homeowners into negative equity. So it wouldn't play well with the Government's key constituencies. Allowing prices to fall would therefore be politically unacceptable, even though it would be a better route forward from a housing market perspective.

So what we get is a proposal that will reduce the incentives for banks to improve their risk management practices because the government is ultimately underwriting the debt. Admittedly, the outline of the scheme suggests that the banks and the builders will have to take a hit first, but this policy establishes the principle that the government is the ultimate backstop for poor commercial decisions. Where have we heard that before? Not only in the UK banking crisis more broadly, but in the US debate about subprime lending and the process that brought Fannie Mae and Freddie Mac to their knees.

I think this is a bad move. It is a short term intervention that makes the longer term goal of an effective and stable housing market harder to achieve. But might we be taking it too seriously? A couple of things strike me. First, given the broader economic outlook, house prices continue to look fragile. This initiative is not, on its own, on a scale that will prop up the market. Second, if the Government's reforms of the planning system lead to the substantial increase in development it is promising then that will reduce upward pressure on prices further. So it may be that some FTBs might think twice about taking up this offer, if it means negative equity in the very near future.

The proposed changes to the planning system will no doubt boost profits for the speculative builders who were demanding them.⁴ I am sceptical that they will necessarily increase the supply of good quality and sustainable homes greatly, although it would be good if they did. Supply is a function of the broader economic context and confidence. Builders are sitting on plenty of development land at the moment. It isn't only a shortage of land that is stopping them building.

But if you could sit on your hands in order to force valuable concessions from the Government that would ultimately increase profitability? Well you might be tempted.

The Government's actions to promote small and medium sized builders and more community-led building are very welcome. If the Government can remove some of the barriers – in terms of land and finance in particular – facing this sector then that would go a long way to making the construction industry in Britain more responsive, more competitive, and, potentially, higher quality.

³ See <http://www.alexarchives.org/communication-breakdown/> for an initial review of the reception of these proposals.

⁴ <http://www.guardian.co.uk/politics/2011/nov/20/house-builders-lobbied-cabinet-planning> (Last accessed: 25/11/12)

The Government could have been really radical and proposed taxing developers' land holdings to incentivise them to sell it on or bring it into use sooner rather than later. But that wasn't likely to happen now was it?

Most of the proposals for the rental sectors we have seen before. The strategy statement gives a little more detail on proposals such as the "reinvigorated" Right to Buy. But, equally, those details raise further questions. It is clear that earlier promises that RTB sales would be matched one for one with the construction of new affordable housing are not quite what they first appeared. The distribution of the receipts from sales stays as it currently is, with the bulk going back to the Treasury to redeem debt. So the replacement affordable housing will primarily be financed by private sector borrowing.

In fact, the proposals for expanding the social rented sector are premised on the absence of public capital spending and the need to borrow privately. The expectation is that the private sector will lend against the higher future income stream from "affordable", rather than conventional social, rents. Similar motivations lie behind the Government's enthusiasm for Tax Increment Financing. Much of the thinking here puts me in mind of the Private Finance Initiative. The Government doesn't want to incur capital spending now but would rather get the private sector to put the money upfront. The Government then covers the cost of the rent for tenants who cannot afford to pay out of their own pocket. So we're exchanging a known capital expenditure for an unknown but long term revenue subsidy. Analysts have shown that the total cost to the taxpayer of using revenue subsidy in this way typically becomes greater after a very few years. But, of course, in any one year the cost may not look so great.

From the Government's perspective, the only ways to try to manage the future revenue subsidy bill is to cut the level of housing benefit at some point in the future or to let social housing tenants who can pay from their own pocket. The former approach is ruled out in the strategy document, as it has to be if the Government doesn't want to frighten off the lenders. The latter approach is, to some extent, already happening. Where those households who do need assistance find themselves living is a separate question.

Reaction to the housing strategy statement is emerging throughout today, and debate over its merits will no doubt continue for some time. That is absolutely as it should be. Housing is one of the most urgent issues facing us today – it's good to see it high up the political agenda.

Housing and the economy

12th September 2012

Many people appear to be coming round to the idea that investment in housing could be the way forward in attempting to revive the economy. There are good reasons for thinking that housing investment is a promising avenue to pursue. Even though the estimates differ somewhat in magnitude, the direct impacts of investment in terms of increasing employment and taxation and reduced unemployment benefits are now relatively clear.

And import leakage is low. The multipliers and indirect impacts of housing investment compare very favourably with those for other types of investment.

Intersections

It is very welcome that greater policy attention has focused upon housing, but we should recognise that we face intersecting issues here. There is the urgent need to identify an effective macroeconomic lever. House building may well do the job.

But there are longstanding concerns about the housing supply system in the UK.

For the last decade and more housing supply has fallen short of requirements. Most analysts think we need at least 210,000 units a year, every year. The last time a government ventured to pin a number on the situation was in 2007 and the number was an increased requirement of 240,000 per year. Only once over the last decade has annual output come reasonably close to hitting that target. So we continue to build a backlog.

No doubt part of the sluggish supply responsive in the UK is associated with the planning system. But the particular and peculiar nature of the house building industry also plays a role. The industry relies heavily upon subcontracting and is more labour intensive than similar industries elsewhere. It can rely heavily on land speculation rather than technical efficiency in production to make its money. Over the last decade and more the industry has experienced a process of industrial concentration, with a few volume builders now accounting for a substantial share of the market.

We are also in a period of significant tenure change, with owner occupation stalled and private renting growing rapidly. There are reasons for thinking that, unlike the temporary growth of private renting during the 1990s housing market bust, current changes could signal a more persistent transformation. This is an issue that analysts and commentators continue to wrestle with in real time.

The big picture

My plea when thinking about housing and the economy is that we need to think holistically.

There is the initial question of why housing rather than other types of infrastructure spending. There is an answer here not only in terms of multipliers and import leakage but also the fact that it is feasible to get housing developments up and running relatively quickly. They are closer to “shovel-ready”, if you will.

But it is also important to step back further still. We need to think about the economic impact of housing investment not simply in terms of the direct and indirect impacts in the short term.

Three areas are particularly pertinent.

First, recent estimates of the impact of poor housing on health typically come out with figures north of £2bn per annum. That represents both days lost from participation in the economy and additional demands on the NHS.

If those affected are children it also means that the future productive capacity of the economy is impaired as a result of housing-induced ill-health resulting in underachievement at school.

Second, additional housing development which improves affordability will allow for greater mobility – particularly inter-regional mobility – and reduce spatial mismatch between the population and centres of employment. This enhances the productive potential of the economy.

Third, we know that poor housing and neighbourhood conditions – and in particular overcrowding, homelessness and enforced transience – are associated with poor educational achievement. Failing to deal with this simply perpetuates disadvantage.

Investment in housing may currently be in focus because it might offer a short term fix for an economy in the doldrums. But there are sound and longstanding arguments regarding why improving the housing stock is important for economic efficiency and growth. It is investing to save and investing to enhance potential.

Challenge and (lack of) change

A push for investment in increased housing supply would be welcome. But it would also present a challenge. Can the system cope with a major stimulus? Can the system deliver? Clearly there must be under- and unused capacity at the moment, given the collapse in house building over the last four years. The recession is likely to have resulted in some depletion of skills and labour availability as people move out of construction into other industries. So the industry wouldn't have quite the same capacity as it had before the recession. And, as noted above, only once in the last couple of decades has industry output approached the level required to match population growth.

In fact, investment in house building now may well be a sensible measure simply to stop further depletion of capacity – so that when a recovery finally arrives the industry is in better shape to respond. Otherwise, increased demand will just transmit straight into price inflation.

The structure of the housing system more generally remains largely as it was before the financial crisis. Recent change, or lack of change, has been reviewed by the JRF Housing Market Taskforce.⁵

The UK housing system is bedevilled by volatility, which is partly a function of weak supply response and partly a function of liberalised credit markets. There has been some change in the planning system, but no meaningful reform of the construction industry or the taxation system. The FSA's Mortgage Market Review has suggested the need for more prudent lending but very little has been laid down by way of hard regulation. The expectation has to be that when the market picks up again lending criteria begin to loosen and we'll be back where we were in 2006-2007.

⁵ <http://www.alexarchives.org/restructuring-to-reduce-market-volatility/>

Housebuilding but ...

While the idea that we need a major house building programme has gained acceptance, less attention has been paid to what should be built and where it should be built.

UK housing space standards have been declining for the last two decades at least. We build some of the least spacious properties in the industrialised world.

It is a peculiarity of our housing history that we have built the highest quality properties to decent space standards – particularly public housing – in the periods of most intense housing need after the two world wars.

It would be unfortunate if we rushed to build just any old thing in order to take advantage of the multiplier effects, but produced small inflexible and quickly obsolete spaces in the process. After all, in practice we have to assume that anything that is built needs to last a century. And if real incomes rise in the long term the demand for space will rise and demand for shoebox properties will evaporate.

Equally, only building large executive homes would help the volume builders' profit margins but probably not the problems of affordability facing first time buyers. While filtering mechanisms might deliver cheaper starter homes eventually they aren't particularly reliable and the filtering process will take time to benefit those at the bottom of the heap.

The "where" of building may be different depending on the objectives that are prioritised. In particular, the most appropriate locations to target building to assist economic growth are not necessarily the same locations that would be targeted to have the largest or most immediate impact upon affordability.

Indirect effects

The debate on housing and the economy recognises that in addition to the direct benefits of investment there are a range of indirect benefits associated with secondary markets and labour markets and potentially a variety of positive social effects, some of which are longer term.

But the indirect effects of housing investment can be thought of as broader still and rather more abstract. In particular, there is a growing concern about intergenerational justice. The concentration of asset ownership among older households and the inability of younger households to enter the housing market generates discontent, resentment and social tension. Through intergeneration wealth transfer it also perpetuates social inequality. Expanding housing supply is the primary means of addressing this problem.

It's not just about supply

The debate is coalescing around the stimulation of housing supply. But that is only one half of the equation. We might ask why housing supply has collapsed so precipitously over the last four years.

A key part of the story is the credit crunch. And a key reason for the current sluggishness of the housing market is the thinness of the mortgage market, for first time buyers particularly, and the more arduous deposit requirements being stipulated by lenders.

This leads to what has been termed in the literature “frustrated demand”: there are households who could afford to service a mortgage – indeed they may be paying a rent in excess of a mortgage on an equivalent property – but they cannot get access to appropriate mortgage finance, often because they lack the money upfront for a deposit.

Another part of the story of the weak housing market is increased unemployment risk and price uncertainty as a result of the parlous state of the wider macroeconomy. Similarly, real incomes – and for many people nominal incomes – are declining.

In the private rented sector restrictions in the local housing allowance means that a proportion of those looking to live in the private rented sector have fewer resources at their disposal to secure accommodation.

All these factors mean we need to ask whether, if the Government stimulates the supply of housing, the demand for those properties be there? If the Government offers guarantees but expects developers to take a risk in restarting building schemes or building out schemes that are already underway then it is assuming that developers are anticipating willing buyers. If they can't see willing buyers then they aren't going to build. If they can see willing buyers then they don't need a guarantee.

In the past when Britain has engaged in intensive periods of major house building a good chunk of that building was local authority housing for rent at low rents, so the issue of whether there would be people to let the properties to was less pressing. The challenge of engineering a housing supply revival in a more marketised context is considerable.

Tensions across policy areas

Finally, we have to recognise that there are tensions in the objectives across policy areas.

Most housing economists think that housing is still overvalued and undersupplied and therefore supply needs to increase to restore some semblance of balance to the housing market.

However, from the point of view of the banking sector there is more caution about doing something that causes prices to depreciate because it will negatively affect bank balance sheets, which may already be relatively weak.

Similarly, while more house building may help the economy from the point of view of economic potential and labour mobility we know that house price depreciation – and the accompanying perception that household wealth has declined – is associated with a drop in GDP. And reduced housing wealth is associated with lower levels of self-employment and business start up.

For the last couple of decades social policy has been geared towards a reduction in tax-funded state services and a narrative of asset-based welfare. People are expected to ‘spend the house’ in order to meet their needs – such as long term care in older age – and those of their family. In this context maintaining the value of the house can be seen vital. This raises questions, in the context of localism, of where new housing will be built. If I am not sure whether I am going to be handed a large bill for my long term care in due course – because, for example, proposals like those of the Dilnot Commission have not been implemented –

then it is rational for me to resist local development that would undermine my house value. So bringing more clarity in other policy areas may facilitate progress in the housing field.

Hence, the incentives around housing and house prices are in tension when we view them from different perspectives. The move to enhance housing supply would be welcomed from one perspective but perhaps not so joyously embraced from another.

That isn't to say that we shouldn't pursue further investment in housing – we should. But the picture is perhaps more complex than it first appears and the process could be facilitated by actions in related policy areas

Boosting housing supply⁶

5th October 2011

The Conservatives' proposal to resuscitate the Right to Buy through increasing discounts appears to be an attempt to bask in some of Mrs Thatcher's reflected glory. Unlike the 1980s version, though, Mr Cameron and Mr Shapps are emphasizing that each property sold will be matched with a newly built property at "affordable" rent. This is an attempt to head off criticisms that the Right to Buy reduces the supply of "social" housing. So, it would appear, this initiative could lead to a net increase in the housing stock.

Of course, things are never as they first appear.

It is not yet clear how the Government will be able to deliver on this pledge of one-for-one. Bigger discounts mean lower revenues. The broader reform of the Housing Revenue Account includes requirements to pay 75% of receipts to the Treasury. The Q+A released by DCLG on Sunday indicates that using RTB receipts to repay debt will still be part of the picture. So there appears, on the face of it, to be a gap between the money raised from sales and the money that would be available for new build. No doubt that gap will be filled by the expectation that landlords will borrow against their current asset base – a strategy that will relatively rapidly come up against serious constraints. The new Right to Buy policy will also, if it takes off, most likely accelerate the change in the profile of social housing tenants towards the poorest.

As you can tell, I'm sceptical about the impacts of this policy. But it has the positive effect of focusing the housing discussion. Everyone involved in housing agrees we face problems. Almost everyone agrees that there are long standing problems of under-supply. Layered upon this are problems of access and affordability. The question is how to address these problems.

The Government has brought forward a number of new or revised initiatives. FirstBuy is intended to assist first time buyers with the costs of accessing the housing market. The first household purchasing a house through the scheme – in Bridgwater in Somerset - completed last week. The New Homes Bonus is intended to incentivise local authorities and local communities to support development in their area. The Housing Minister is keen on

⁶ Originally posted at Liberal Democrat Voice (www.libdemvoice.org).

“mates mortgages” which allow groups of friends to buy together. The new “affordable” rent regime allows registered providers such as housing associations to construct new housing, but at higher rents and not in the same volumes as were being built by Labour.

The problem with most of these initiatives is that – however desirable they may be individually – they are too small to make much of a dent in the problem.

The real boost to housing supply – from the Government’s perspective – will come from the reform of the planning system and the early release of land in public ownership for development.

The reforms of planning are massively controversial, and the debate has been polarised into some very simplistic positions between the pro-development and the conservation lobbies. At the core of the debate is the presumption in favour of sustainable development. But there is also the developing recognition that the Government is proposing to get rid of many of the mechanisms local authorities have relied on to deliver social and affordable housing.⁷ Anyone who has read the draft National Planning Policy Framework will know that its authors don’t provide a clear definition of sustainable development and have no real appreciation of what it means. It is a document that prioritizes growth and new development except where “the adverse impacts of doing so would significantly and demonstrably outweigh the benefits”. That apparently simple “common sense” requirement will no doubt launch a raft of legal challenges.

This is not perhaps surprising. It is relatively well-known that the development industry has had a large influence over the drafting of the NPPF, as it does over the ministers concerned. Indeed, Mike Slade, chairman of the Conservative Property Federation, was recently reported in the Telegraph as saying:

They [ministers] know nothing, they’ve never been in the real world, and they need to be told what the facts are and the British Property Federation, the Property Forum and lots of other people they engage with do that.⁸

This emphasis upon “facts” – rather than perspective – finds an echo in the draft NPPF which insists that local authorities have an obligation to meet “objectively assessed development needs”. We don’t have the space here to explore how facts and objective assessments are hard to come by in something as politically contested as development planning.

The Government’s approach is problematic because it is so partial. Few who are familiar with the housing system would deny that the planning system contributes to the problems of housing supply. It has been under scrutiny for the last decade. But the problem is more complex than that. For example, top down targets did not, all on their own, cause low rates of house building, as the Housing Minister is wont to argue.

To understand housing supply we need to go beyond the planning system. We need to understand cultural attitudes to development; intergenerational relations; the impact of

⁷ <http://www.guardian.co.uk/politics/2011/oct/01/social-housing-planning-reform> (Last accessed: 25/11/12)

⁸ <http://www.telegraph.co.uk/earth/hands-off-our-land/8798094/Hands-Off-Our-Land-Ministers-know-nothing-about-planning-claims-developer.html> (Last accessed: 25/11/12)

advocating local development on political support; the peculiar structure of the UK construction industry, which relies upon subcontracting and has limited incentive to provide high quality accommodation; and the role of local spatial monopolies in sustaining house prices through controlled release of land. We also need to recognise that severe economic cycles and shortages of mortgage finance make it difficult to forecast demand. Volatility and uncertainty pervade system. And that impacts upon developers' willingness to build.

An accessible, balanced summary of the issues entitled *More Homes and Better Places* has recently been produced by the Building and Social Housing Foundation.⁹

Until policy is willing to recognise and grapple with these more wide-ranging issues then progress is going to be limited. And for policy to do that it is going to need to look beyond the world as seen from the developers' perspective.

Will it take more than fixing the planning system to improve housing supply? ¹⁰

18th November 2011

It is a truth universally acknowledged that Britain has a housing problem. There are problems of shortage and, consequently, access and affordability.

There are three principal mechanisms for dealing with significant housing shortage and indirectly reducing the affordability problems that go with it: (1) You can reduce the number of households needing to be housed; (2) You can increase the number of properties available; and (3) You can improve the utilization of the existing stock of properties.

You can try to do something on all three fronts. A couple of weeks ago LibDemVoice co-editor Mark Pack identified six options, covering all three of these mechanisms.¹¹ The options differ in their desirability and political feasibility.

Government efforts to increase supply have so far focused on the planning reforms ushered in by the Localism Act, while the New Homes Bonus is intended to incentivise communities to welcome such development. Whether the planning reforms will deliver is still open to question. On the day the Localism Bill was signed into law the Federation of Master Builders warned that top-down targets may need to be re-introduced if sufficient supply is to be secured. They are, it appears, expecting localism to equal NIMBYism.

One issue that has received limited attention in the debate so far is the construction industry. Developers and the Government are happy to point the finger at planners being the major barrier to new build. But planning is at best facilitative. Designating land for residential development doesn't, in itself, get properties built.

⁹ <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=25E04994-15C5-F4C0-99170AE24B5B0A84> (Last accessed: 25/11/12)

¹⁰ Originally posted at Liberal Democrat Voice (www.libdemvoice.org) under a slightly different title.

¹¹ <http://www.libdemvoice.org/housing-six-things-that-could-be-done-25765.html> (Last accessed: 25/11/12)

A recent report by the IPPR floated the idea that reforming the construction industry was part of the solution to Britain's problems with housing supply.¹² A follow-up report making an extended case for reform is due soon.

The last four decades have witnessed steady concentration in the construction industry through merger and acquisition. And merged companies have, almost without exception, reduced output. The proportion of production accounted for by volume builders (and latterly so-called super builders) progressively increased. Many of these large builders suffered badly in the economic downturn: they have been forced into major balance sheet writedowns on the value of their assets, usually land for development bought at over-inflated prices.

The structure of the construction industry in the UK is distinctive in the way it unifies land acquisition, site preparation and construction within single firms — the speculative builders. These are separable activities that are separate in other countries. The industry is also distinctive in having a relatively small community and self-build sector.

Some commentators think this structure signals competition problems. A particular concern is in the acquisition and banking of land equivalent to several years' future development. Individual builders can have market power in particular localities. For example, in their representation to the 2007 Callcutt *Review of Housebuilding Delivery* the Chartered Institute of Housing stated that:

We have some concerns that landbanking for profit (rather than to ensure a smooth supply of land as development opportunities arise) and purchase of options on land ... have a negative impact on both land supply and land price: restricting supply and reinforcing fluctuations in the housing market.¹³

Others disagree. They argue that the whole practice of landbanking is simply a strategy to manage risk in the face of a cumbersome planning system. In fact, some have attributed the distinctive structure of the entire industry to the existence of the planning system. The Government's Localism proposals, if they not only increase land supply but also speed the planning approval process, may lead to new organisational forms being sustainable in the ecology of the construction industry.

The more recent enquiry into industry practices by the Office of Fair Trading did not find clear evidence of anti-competitive practices.¹⁴ But there are other concerns.

The market volatility the industry faces — again attributed by many to the planning system — requires production flexibility, which takes the form of extensive subcontracting, which has resulted in a tradition of standardisation and low technology production methods. This can lead to quality concerns. The OFT sought to change the regulatory structures to enhance quality, but without in the first instance being strongly interventionist.

¹² <http://www.ippr.org/publications/55/8116/build-now-or-pay-later-funding-new-housing-supply> (Last accessed: 25/11/12)

¹³ <http://webarchive.nationalarchives.gov.uk/20070130001032/callcuttreview.co.uk/default.jsp> (Last accessed: 25/11/12)

¹⁴ http://www.of.gov.uk/shared_of/reports/comp_policy/oft1020.pdf (Last accessed: 25/11/12)

Smaller and medium-sized housebuilders continue to play a key role in new housing supply. Smaller builders are valuable because they are often interested in developing smaller parcels of land. But the sector is small by international standards. And it is suffering badly as a result of the credit crunch.

The recent housing report by the CBI recommended that the Government needed to ensure that funds were flowing to SMEs in house building under Project Merlin.¹⁵ The absence of a strong community and self-build sector in the UK is also identified as a problem. This is a sector that plays a much bigger role in housing supply in other countries.

It is also a sector that will typically deliver higher quality. One reason for this is that community builders retain a stake in the development after completion. They have an incentive to build to last. Speculative builders typically do not. During the downturn some speculative builders have experimented with schemes whereby they retain an interest in a site over the longer term. This is an area in which, if quality concerns are to be addressed, there may be scope for novel solutions.

Smaller builders can suffer from difficulties in accessing development land, particular in localities where it has been banked or optioned by large developers. One possibility is to change the tax treatment of land to discourage extensive landbanking. LVT could help, but it could be some more targeted incentive for large developers to pass land on to smaller builders.

Seeking to improve housing supply raises complex questions. Here we've scratched the surface. The key point is to ensure that debate is wide-ranging and we're willing to seek improvements wherever they can be found in development process.

NIMBY Nation¹⁶

13th December 2011

The publication last week of the 2010 British Social Attitudes report made the headlines because it seemed to indicate that the British population is becoming increasingly self-reliant, self-centred or selfish – depending on your perspective – and more inclined to see poverty and disadvantage as either the fault of the individual or an overgenerous welfare state. As part of the survey respondents gave their views on whether they supported or opposed more homes being built in their area. The headline result that 45% said they'd oppose more local development reached many news bulletins. Less than a third of respondents positively supported new building locally. The inference that many have drawn from this is we are a nation who have fully embraced the “not in my back yard” philosophy.

¹⁵ <http://www.cbi.org.uk/media-centre/press-releases/2011/11/housing-market-faces-twin-challenge-%E2%80%93-short-and-long-term-solutions-needed-says-cbi/> (Last accessed: 25/11/12)

¹⁶ Originally posted at Dale&Co. (No longer available online at this location).

This question was asked for the first time in 2010 so we can't know whether this result indicates the population is becoming more or less hostile to development. But if you read more deeply into the survey results – and the full report is available online from the NatCen – you'll see a more complex picture emerge.

Opposition to development was greatest among home owners (51%), while support was greatest among social renters (48%). Given that home owners dominate most local housing markets, their opposition is highly significant. The report's author – Glen Bramley from Heriot-Watt University – speculates that the greater support among renters is a combination of a desire to see more homes available for rent and frustrated aspirations to buy. This seems plausible.

When looked at regionally, opposition to development is strongest in the areas where it is most needed – outer London (58%) and the South outside of London (50%). While support for development in the rest of England is not much greater than in the South, declared opposition is lower. Inner London was the only part of the country where the balance of opinion, among those expressing a clear view one way or the other, was positive. But that is the area where there is least scope for development.

Opinion in Wales was not much different to that in England, whereas Scotland stands out in having more people supporting development (43%) than opposing (34%).

The survey explored whether offering communities incentives might tip the balance in favour of local development. The answer was that offering incentives such as more employment opportunities, green spaces and parks, or transport links could sway a significant minority of those who were initially neutral about development (neither supporting nor opposing) and a slightly lower proportion of those who were initially opposed. But when offered a list of eight possible incentives fully 54% of those who were initially strongly opposed to local development remained unmoved. Interestingly, of the eight options offered “financial incentives to existing residents” proved the least popular.

Bramley suggests that if developers and local authorities put together packages of incentives this may succeed in convincing some local communities to support development. However, his results indicate that even faced with such incentives the shift in opinion may not be sufficient to gain overall support in many areas, and that this is particularly the case in areas of the rural South.

These results pose challenges to policy makers. The supply of housing over the last two decades has averaged around 160,000 units a year, when most assessments suggest that well over 200,000 units a year are needed to keep up with growth in the number of households. That suggests the shortage is getting worse. Bringing empty properties back into use, as advocated last week by Channel 4's Great British Property Scandal, can help. But it won't solve the problem of shortfall.

The last Labour Government put in place a system top-down regional planning targets to deliver new housing. Local communities may not have liked them but they did force local authorities to identify land for development on a large scale. The Coalition abolished these targets and through the Localism Act is placing more emphasis upon local communities having the power to decide levels of development locally. Over the last couple of years

housing supply has collapsed. That is, of course, in part because of the economic crisis, but there is also evidence that, in the absence of top-down targets, plans for housing supply in many local areas have been dramatically scaled back. And that is even before local communities have a more direct say.

The Government favours using the incentive of the New Homes Bonus to encourage communities to support development. While the Government can rightly point to examples of communities benefiting from this bonus and making innovative use of it locally, it is not at all clear that the incentive-based approach will deliver the flow of new development needed.

At the same time, the recent Housing Strategy has proposed allowing developers the scope to renegotiate existing planning permissions so as to remove aspects that make them uneconomic – those aspects are typically affordable rented housing provision and the provision of community facilities. That would tend to make such development less likely to find community approval.

On Monday of this week the National Planning Policy Framework is back in the House at the Commons Communities and Local Government Committee. The framework will embody a presumption in favour of sustainable development, which is supposed to unblock the planning system and lead to increases in new development. Yet, the results of the British Social Attitudes survey suggest that if the Government is serious about localism and placing the views of residents and local communities at the heart of shaping their area then the biggest stumbling block to new development hasn't been overcome. This may be the reason why at least one representative organisation in the development industry has hinted that the Government may need to re-impose regional targets or else the whole system will grind to a halt.

If we don't want targets imposed then securing the levels of new development needed to improve housing affordability and meet housing needs in high pressure areas is likely to require a campaign to engage with existing residents. There needs to be a wider sense that meeting community needs includes recognising the needs of those who are currently shut out of the housing market. But that brings us back to where we started. Because that requires people to look beyond their own circumstances and develop a better appreciation of the difficulties faced by others.

Planning, it's always planning ...

12th April 2012

On Wednesday the Institute of Economic Affairs discussion paper *Abundance of land, shortage of housing*, by Kristian Niemietz, was launched on to an unsuspecting world.¹⁷ The timing of this launch is intriguing. We are still trying to come to grips with the final version of the National Planning Policy Framework (NPPF), published only three weeks ago. One would

¹⁷ <http://www.iea.org.uk/publications/research/abundance-of-land-shortage-of-housing> (Last accessed: 25/11/12)

assume that further major reform of the planning system was off the agenda for a while. So it's a slightly odd time to launch a report which restates the argument that land use planning is the source of most of the housing affordability problems we're facing in the UK.

Of course, it may be that the way the NPPF story played out is precisely what triggered a restatement of the anti-planning case. The denouement of that particular policy saga was rather different to that anticipated by many. The draft framework put out for consultation last year was pretty horrible. It was criticised as such by many practitioners and commentators, including the Select Committee. In the run up to the publication of the final version there were all sorts of rumours that the Treasury had got its way and prevented major revisions. That it had blocked the reinsertion of various protections and prevented the watering down the presumption in favour of development. As it turned out, these rumours were not entirely well-founded. There were some significant changes of tone in the final NPPF. Of course, that led those who were seeking significant deregulation to hail this as a missed opportunity and a triumph for the forces of conservatism. Hence, perhaps, the IEA paper.

Local policy makers, practitioners and communities are still trying to make sense of the NPPF. How will it work in practice? Will communities be able to fulfil the roles expected of them? How will planning for housing link up with planning for infrastructure? Is the Government's drive for brevity – moving from 1,000 pages to 50 pages of guidance – a dramatic and welcome simplification of the system? Or does it just inject such a large slice of vagueness and ambiguity into the system that it is little more than a recipe for litigation on an industrial scale. A brief summary of some of the concerns emerging from a recent Guardian Housing Network discussion is available.¹⁸

But the IEA are looking beyond these details to the bigger picture. And the bigger picture is the problem of planning. *Abundance of land, shortage of housing* is perhaps a little less transparently dogmatic than most of the IEA output, but the message is broadly the same.

The report is interesting because it runs through a number of factors that have been identified as generating our affordability problems and contends that the arguments are weak, the impact of the factors identified is modest, or the focus is erroneously upon effects rather than causes. Or, as the author puts it rather more robustly (p5):

This paper will address a selection of the non-arguments often heard in the housing debate, and will show why none of them can explain more than a trivial share of the housing cost escalation. It will then go on to show why only a thorough liberalisation of the land use planning system can address the affordability crisis.

The factors dismissed by the report include increasing population density; restraints on assistance with housing costs – specifically Housing Benefit; the Right to Buy reducing the supply of social housing; speculation in residential property; the absence of property taxes; insufficient regulation in the private rented market; misallocation of the housing stock.

¹⁸ <http://www.guardian.co.uk/housing-network/2012/apr/06/top-tips-nppf-housing-crisis> (Last accessed: 25/11/12)

Some of this discussion is good knockabout stuff. Most of the arguments offered against these various factors are very truncated, with the reader invited over a paragraph or three to accept the patent absurdity of the view being critiqued. Some of the points are well-made. The author is absolutely right to point out that some of these arguments – such as the need for a more generous or differently targeted housing allowance system – are focusing on the symptoms rather than the causes. Some of the points are rather less well-made. In a discussion as truncated as the one offered here subtlety almost inevitably goes out the window; the author sets up some straw men to knock down. The argument that deregulation of private renting far from being a problem is one of the few strengths of the UK housing market seems to be a caricature of a different type.

The tone of the discussion of the planning system is rather different. It engages much more directly with the academic literature, or at least the literature as it was up until the last few years. It is certainly the case that the literature – much of it generated in the US – is largely supportive of the view that zoning and other forms of land use restriction have the effect of increasing housing and land prices.

Niemietz considers that the proposals advanced by the Coalition government through the NPPF do not go far enough in dealing with the barriers to development. He offers a familiar diagnosis. The current system is too restrictive and needs to shift to being grounded in a genuine presumption in favour of development. But, equally importantly, the incentives it embodies are wrong. Local communities lack the incentives to support development in their area. The costs are imposed upon them in terms of increased development/density and potentially reduced environmental amenity, but they do not get to see the benefits in terms of a larger tax base to fund local services. So a key part of the problem is the centralised nature of the British taxation system. If revenue was not just raised locally but stayed local and could be spent locally then that would open up different types of conversation about the desirability of development.

While the urban economics literature generally finds land use regulation to impact negatively on affordability, it would be fair to say that over the last few years the arguments over the role of planning as a barrier to development have been tempered a little. Economists have tried to set the effects of policy and the planning system more clearly in the context of the impact of history and geography on local spatial development. Equally importantly, even in the conventional housing economics literature there has been something of a move towards understanding the causes of planning regimes. That is, in the Niemietz' terms, when we focus upon planning as the problem we are focusing upon a symptom rather than the cause. If one were to be incautious one might even suggest that the literature is edging towards a political economy of planning.

If we want to develop a more rounded understanding of the problems of housing supply then we have to get beyond an obsession with planning. That doesn't mean that planning and planning reform isn't part of the story, there is too much evidence that it is an issue for it to be ignored. But it means that a persistent and exclusive focus on planning provides an equally partial and inadequate understanding of what is happening.

Meen and Nygaard¹⁹ neatly capture the point:

In the literature, there is a broad consensus on the variables affecting house building—for example, house prices (both the level and change), construction costs, credit costs and availability, land use regulation, uncertainty, impact fees, the weather—although no study includes all these factors together.

And within this mix of factors “uncertainty” can be taken to refer to both volatility in house prices and uncertainties about the strength of demand that flow from broader economic and labour market developments. One factor that Meen and Nygaard don’t mention, and upon which Niemietz is equally silent, is the structure of the construction industry. To build a comprehensive understanding the problems of housing supply then the distinctive highly concentrated nature of the building industry needs to be integrated in to the story (as I previously noted in *Boosting housing supply*). It is to these factors, not the deficiencies of the planning system, that we need to look for the explanation of the recent desperate performance on housing supply.

David Miles’ recent paper for the Bank of England is highly relevant to this discussion.²⁰ He argues that explanations for the dysfunction in the UK housing market that focus upon planning are superficial because they don’t account for, among other things, the way in which the value of and demand for non-developed land changes with growth in income and population density. This suggests that even viewed from a strictly economic perspective, suitably specified, the relevant trade-offs can look rather different. He develops a simple model from which some of the stylised facts of the UK experience of relatively poor housing supply performance can be derived.

But, equally, this is a debate in which you rapidly run up against the boundaries between the economic worldview and other perspectives. What is it that is motivating people in their decisions over local spatial development? Is offering them the opportunity to pocket a few quid or save a few quid on their local tax bill sufficient to change their minds? In this respect it echoes the debate over whether Grant Shapps’ New Homes Bonus offers a sufficient incentive for communities to agree to development locally.

Glaeser and Ward draw the following conclusion in their recent paper²¹ on local land use restrictions:

Regulations do appear to increase prices, but the impact of density on prices is generally quite modest. As a result, communities seem to have density levels that are far too low to be maximizing their land values. This suggests the possibility that current land use controls are suboptimally restrictive, and it leaves us with the

¹⁹ Meen, G. and Nygaard, C. (2011) Local housing supply and the impact of history and geography, *Urban Studies*, vol 48, no 14, pp 3107-3124.

²⁰ <http://www.bankofengland.co.uk/publications/Documents/externalmpcpapers/extmpcpaper0035.pdf> (Lasted accessed: 24/06/13)

²¹ Glaeser, E. and Ward, B. (2009) The causes and consequences of land use regulation: Evidence from Greater Boston, *Journal of Urban Economics*, vol 65, pp 265–278.

puzzle of understanding why communities are not choosing to maximize land values.

To which the non-economist might reply: because when people make decisions about their neighbourhood, its environment and amenity they are focusing on their subjective assessment of quality of life not on maximising land values. As with other “puzzles” in economics – such as the puzzle of voluntary regulatory compliance – they are only puzzles when your worldview is constrained by a particular type of economic blinkers.

I’ve a feeling we may have a few more laps of the planning reform track to complete over the coming months. Now there’s something to look forward to.

Cramped, crammed and crap

19th May 2012

We are heading towards a degree of consensus regarding at least one part of the mess that is the UK’s housing system. Pretty much everyone agrees that there needs to be a significant increase in the supply of new properties. Some have arrived at this view from the perspective of the potential positive impact it could have on macroeconomic performance and national infrastructure. Others would seek to highlight that some of the problematic characteristics of the housing market flow from poor housing supply response.

There isn’t quite so much agreement on the solution. The Government gives the appearance of believing that it’s doing enough to deal with the problem. Almost everyone else thinks that more could, and should, be done. Many believe that more far-reaching structural reform is necessary.

One of the Government’s key innovations has been the NewBuy scheme, which provides guarantees that allow purchasers to access 95% loans on new properties. The principle behind this scheme has been roundly criticised by many commentators and academics because it artificially supports prices when what is needed to restore affordability is more price deflation. But, leaving aside problems with the underlying principle, the scheme is now up and running so we might ask whether, in its own terms, it is working. Here again there is a divergence of opinion.

The House Builders Federation sees it as promising that 400 households who have reserved properties through the scheme since it started nine weeks ago.²² In contrast, Brian Green over at Brickonomics, during a broader discussion of the continuing problems of housing supply, considers that the NewBuy scheme has “got off to a shaky start”.²³

The latter chimes with a conversation I had yesterday with a mortgage advisor. I asked what level of interest there had been in NewBuy. The answer was that it was pretty dead.

²² <http://www.hbf.co.uk/media-centre/news/view/newbuy-scheme-early-success-new-stats-reveal-400-reservations-since-launch/> (Last accessed: 24/06/13)

²³ <http://brickonomics.building.co.uk/2012/05/awful-house-building-figures-put-the-shapps-gold-standard-further-in-doubt/> (Last accessed: 24/06/13)

There had been a bit of interest at the beginning but that had petered out. The lender was willing to work with NewBuy but no one was interested in buying.

The reason given was that the scheme is, as the name suggests, only available on new properties. And new properties are perceived by consumers as cramped, crammed and not very well built. That speaks to some more profound and deep-rooted problems with our misfiring housing system.

That was only one conversation, and it perhaps shouldn't be given too much weight. But it is one that tallies with what we know elsewhere. These are not new problems, but they are problems that seem to be getting more acute.

The Guardian was running a poll this week on whether, and how, to change housing supply to deliver more spacious homes. This followed from a report by RIBA – *The Way We Live Now* – examining the poor space standards in new build homes. The suggestions largely revolved around greater regulation – the possibility of returning to an earlier age where the Parker Morris standards set out minimum requirements.²⁴ Britain is the only EU country that doesn't set minimum standards.

Such poor standards mean that we do not build sustainable, flexible spaces that could offer lifetime homes. At the moment the country is building nowhere near sufficient properties. It is doubly unfortunate that the ones that are being built are not necessarily high quality spaces. It is one of the perversities of British housing history that the best quality properties have been built at the times of greatest need and in the face of austerity. Perhaps now is the time to replay history.

But the search for space is another case where we need to set greater regulation in context. Of course, it would be preferable to build homes that we can be confident will be useful for the next century. Rather than building what are, in some cases, glorified cupboards. The question is why do we face the problems we do?

In the private sector that takes us back to issues of affordability, the price of land, planning constraints, and the structure of the building industry. With land prices high builders are going to cram. And reducing space standards means selling more units off of a plot, so making more money. The peculiar structure of the UK speculative building industry means that high build quality is not always a priority. A relatively concentrated building industry means that the pursuit of profit is less constrained by competition. So we end up with what Alan Evans famously described more than 20 years ago as “rabbit hutches on postage stamps”.²⁵ He tended to place the blame squarely on the planning system, as the embodiment of sectional interests. I think the story is a bit more complex than that. But that just makes the challenge of achieving a more socially beneficial housing production system all the greater.

Regulating for higher standards without fundamental reform of the broader structures of provision will simply result in a further deterioration in affordability. Or, even more problematically, it could reduce already feeble levels of supply, if construction firms perceive it as uneconomic to build to higher standards.

²⁴ <http://www.guardian.co.uk/global/shortcuts/2012/may/16/architecture-housing> (Last accessed: 24/06/13)

²⁵ <http://www.gwilympryce.co.uk/teach/evans%201991.pdf> (Last accessed: 24/06/13)

The more you think about the mess that the UK housing system has got itself into the more you are driven to the conclusion that going back to a blank sheet of paper mightn't be a bad idea. Of course, that is not possible. So it is going to need some seriously creative thinking and greater strength of political will to get us out of this jam.

Tory Green Belt housebuilding conniptions

28th August 2012

We're all pretty much agreed that it would be good if housing supply were a bit perkier. That is, perhaps, an understatement. The housing world is broadly united in the view that residential construction is currently in a parlous state, the housing supply deficit is chronic, and it lies at the heart of many of the housing affordability problems that have afflicted the UK housing system for a long time.

Affordability is improving in many parts of the country and for certain types of household. But the continued shortage of mortgage finance means that many potential buyers are shut out of the market.

The housing wonks have been joined in their aspiration to see an increase in housing supply by those more preoccupied with the enfeebled state of the marcoeconomy. They are looking for capital investment projects that could get up and running quickly. Housing fits the bill perfectly.

All that's left now is to determine what to build, where to build it, and who's going to pay for it. So we're almost there.

Well, perhaps we're not. Yesterday we received news of Conservative Ministers at odds over the "where" of housing supply.

Earlier in the year the new National Planning Policy Framework was unveiled. This has been construed by many as a victory for the forces of conservatism. The radical new policy put out to consultation was rather less radical by the time it was finalised. The rural lobby and the *Daily Telegraph* were particularly pleased. Those seeking a more pro-development stance, including the prospect of building on erstwhile Green Belt land, were disappointed. The chance for significantly loosening up of the system seemed to have slipped through their fingers.

But peace may have been declared too earlier. As George Osborne desperately scrabbles around to find something to boost economic growth it appears his eyes have alighted again on the virtues of weakening the planning regime. In particular, the proposal to allow more building on Green Belt land has reared its head again. Lined up against him we have Ministers with a rather more direct responsibility for spatial development, Eric Pickles and Grant Shapps.

Yet, there is, perhaps inevitably, just the possibility that dealing effectively with Britain's housing supply problems does not feature prominently at the top of the list of issues shaping this debate.

On the one hand, there is the suggestion that the construction industry, which puts a lot of money into the Conservative party, hasn't been altogether impressed with the NPPF outcome. It would like a rather better return on its investment. Developers would like more latitude when it comes to building on greenfield sites, which are generally easier to develop and more profitable.

On the other hand, political antennae are picking up more than a whisper of discontent from Shire Tories about possible relaxation of planning regulations. The Daily Telegraph is back on manoeuvres, as is the Campaign to Protect Rural England. There are Tories in marginal, and not so marginal, seats that will get rather antsy if Osborne went too far down the deregulatory route.

As anyone who has read my previous posts on planning will know, I have limited sympathy for the view that the current problems of housing supply rest with the planning system alone. The collapse in house building has occurred without major adverse changes in the planning system, so it is hard to argue that the planning system – rather than a collapse in confidence and the demand for housing – caused supply to nosedive.

However, that isn't to say that there aren't more long-term problems with the planning system. One of them is the impossibility of having a measured discussion of urban expansion and the role of the Green Belt.

This is a debate that almost always struggles to get beyond sloganeering. As soon as the issue is raised we're immediately into "it'll be the end of England's green and pleasant land" or "you want to concrete over the South East" or "you're just self-interested NIMBYs trying to protect your wealth".

Most of us live in cities. And if we travel between cities we do so on motorways. Most people therefore have the impression that Britain is heavily urbanised, with large scale civil engineering projects all over the place. But that isn't really the case. The proportion of land already developed is rather modest. And if we built all the houses we needed in order to meet housing demand on the Green Belt – which no one is actually proposing we should do – then the proportion of developed land wouldn't increase all that much.

Many of us rarely, if ever, visit "the countryside". Much of "the countryside" is inaccessible anyway because it is in private ownership. There are very respectable arguments about the wisdom of preserving the natural environment and levels of agricultural production. There is plenty to be said for smart growth, planning on a human scale and pushing for much greater genuine sustainability and liveability in cities. But the problem is that a time when politicians are thrashing about for solutions to a political and economic crisis is not really the time to expect intelligent reflections on the fundamentals of planning policy. Similarly, there are good arguments for building up not building out, with a greater emphasis upon high density living in high quality apartments and townhouses. But, even if we wanted to, we are not going to engineer a change the housing aspirations of most British people over night.

In the short term, the insistence on preserving the Green Belt at all costs mainly works to the benefit of property owners by maintaining values in already expensive areas. It is a policy with clear distributional consequences. It is always slightly odd to encounter people

who wish to preserve the rural idyll even though it exists largely in their imagination and would be inaccessible on grounds of cost in practice. Many may wish they could retire to the country. But few are going to be able to afford to.

Few of us have a very good idea how much of the land designated as “Green Belt” is of particular agricultural, scientific or environmental value. The label “Green Belt” carries with it the idea that it is all worth preserving. Yet, it is surely the case that the net social benefit from allowing some of the poorer Green Belt land to be developed will outweigh the benefit of preserving it. There is a trade-off to be made. But if we are worried about meeting the housing needs of current and future generations and worried about households having to spend unnecessarily large chunks of their income on housing then it is a trade off that would be worth making.

The majority view among urban economists is that the planning system, by constraining the supply of developable land, reduces local housing supply responsiveness and as a consequence has a negative effect on housing affordability. Enforcement of the Green Belt also leads to some leapfrogging, with implications for commuting patterns and environmental damage.

Don’t get me wrong, I’m very much in favour of using brownfield land first for new housing supply wherever possible. And there is plenty of brownfield land available that could be used. But it has to be recognised that doing so is not always cheap. Given the imbalance between supply and demand in some locations pursuing brownfield only, without at least some relaxation of planning constraints on greenfield land, would be a recipe for small, inflexible, poorly constructed and expensive apartments.

We need a more sensible debate that recognises that not all Green Belt land is worth keeping simply for its existence value. Personally I think we need to move away from the constricting “belt” metaphor and switch to a more flexible alternative like the “wedge”. It is at least 10 years since Green Wedges were championed by planning professional associations as a smarter way of preserving green space while allowing cities to grow.

I’m not suggesting that we need to go full speed ahead to build on the Green Belt. Just that the view that its preservation is of overriding importance needs to be treated as the Shibboleth it is. Then maybe we could deliberate on the trade-offs to be made.

A broader complication to this debate was reintroduced yesterday. From the perspective of the housing market it is pretty much self-evident that housing is overvalued and an expansion of supply would improve affordability. Fathom Consulting has put forward the argument, reported in yesterday’s Telegraph, that expanding housing supply might on the contrary be a bad move.²⁶ In the face of weak demand it may succeed in triggering a house price crash. This would weaken bank balance sheets – or, rather, further expose the weakness of bank balance sheets. And if that effect is serious enough then it could trigger a further round of bank bailouts.

While the point is superficially plausible, the timing and the magnitude of the effects would seem crucial. The banks are in the process of rebuilding their balance sheets.

²⁶ <http://www.telegraph.co.uk/finance/economics/9500516/State-backed-housebuilding-drive-would-cause-price-crash-warns-Fathom.html> (Last accessed: 24/06/13)

Increasing housing supply now would deliver macroeconomic benefits through the construction process. The issue is whether banks would be able to absorb any adverse effect on the value of their existing assets of the arrival of the new stock on the market in a year or so. It is hard to imagine that the Treasury does not have the issue on the radar when contemplating a push for growth. But the scenario identified by Fathom seems rather too apocalyptic to justify a failure to act on house building.

The housing system is undoubtedly in a mess. The fact that housing assets and liabilities are so inextricably bound up with the causes of the financial crisis, and consequently will play a key role in how the country recovers, makes the problem that much more challenging. Overlay that with strong sectional interests within the Conservative party pushing in opposite directions and you have a recipe for paralysis.

I am not aware of anyone who has offered a comprehensive solution to these problems that is likely to get political traction in the current environment. Something will have to give way before any progress is going to be made. I wonder what it will be.

Desperate times call for ...

September 7, 2012

It's hard to know what to make of yesterday's slew of policy initiatives in the housing field. It is clear that they are directed primarily at boosting the economy, rather than being any sort of considered response to the problems of the housing market. You get the sense that the Government has pretty much run out of ideas and it just so happens that doing something with housing investment might help. It's incidental that it is housing. It's the only lever left to pull.

There has already been a healthy debate in the mainstream and social media as to whether any of the Government's initiatives will have much impact upon either growth or the housing market.

Much of the media attention has been directed at the relaxation of planning permission on extensions and conservatories. I think it is a safe bet that this is going to make negligible difference to economic activity in the aggregate.

Eric Pickles, in yesterday's written statement, referred to this initiative as removing bureaucratic impediments to people making improvements to their homes.²⁷ Of course, that completely fails to understand why the planning laws are there. It fails to recognise that some modifications to housing may not constitute "improvements".

Few such home modifications are frustrated because of the planning system. Planning permission is not expensive to obtain – certainly not compared with financing the building work itself – and in most areas is not unreasonably withheld. Only if someone is proposing to do something that is unsightly, out of all proportion with the neighbourhood, or which significantly interferes with their neighbours' amenity will permission be denied. So we can

²⁷ <http://www.communities.gov.uk/statements/corporate/housingandgrowth> (Last accessed: 24/06/13)

only suppose that if this is going to make any difference in the short term then it is going to mean people will start work on projects that have previously been refused permission.

That will presumably set neighbours against each other. It will make work for lawyers as neighbours try to contest the projects or claim damages as some hideous jerry-built extension knocks a few thousand off local house prices. It will presumably lose some MPs some votes.

It is a policy that could only have been cooked up by someone more used to living in several acres of grounds, whose enjoyment of their immediate home environment would go unaffected by their neighbours whacking up an unsightly 8m extension because it is too far away for them to see it.

As a policy it might help those who can't afford to move but can afford to modify their existing dwelling. It may ease the housing pressure if your children can't afford to leave home and you're running out of space. But it won't make any contribution to the need for a vastly increased rate of supply of new housing.

There were other, potentially more significant, moves to relax planning regulations. Most obviously we have an extension of the policy of allowing builders to renegotiate s106 agreements and reduce affordable housing requirements where they are seen as unduly arduous. I'm a bit ambivalent about this. Clearly it must logically be the case that s106 agreements finalised in times of boom are going to look distinctly unattractive in a slump. So there must be schemes that are no longer viable as originally conceived but which could be made viable if the affordable housing requirements were watered down. However, it is clearly a sop to developers who would rather there were no s106 requirements placed upon them at all because they reduce profitability. The crisis gives a convenient pretext to try to get the conditions removed. It's not as if the developers aren't making money at the moment. They're making money. They're just not building houses to do it.

Partly we are facing the consequences of a concentrated construction industry. Partly we are facing the crystallisation of a risk that has been immanent for many years. For a long time academics have pointed out that governments were failing to invest enough in new housing supply and instead were relying more and more on s106 agreements to meet affordable housing targets. At some point when the markets turned sour that strategy was going to backfire. So it has come to pass.

This Government, for all its PR push yesterday, still isn't proposing to spend a lot more public money on housing. There is £300million apparently found down the back of the sofa to put in to building affordable housing that will be lost through the renegotiation of s106. But the bigger sum for rented housing – £10bn – appears not to be government investment but a government guarantee. That immediately raises two questions. Who is going to lend the money? And who can afford to borrow it? The problem in the social rented sector isn't so much the creditworthiness of landlords – some of them have credit ratings that are not much worse than the Government itself – but the absence of collateral to borrow against. That problem is likely to get worse if the Government were to adopt the Policy Exchange

proposals to sell off valuable housing.²⁸ The other problem is that the Government's own welfare reforms are increasing risk and uncertainty over future income streams.²⁹

It is clear that the Government is trying anything and everything it can think of – however outré – rather than invest any public money. I thought it was notable this week that in its report on the mess of the housing market Tullett Prebon argued that the government needs to invest money directly rather than get involved in any more spivvy, poor value-for-money PFI-type schemes.³⁰ It seems odd that the Government is running scared of the City's reaction to it borrowing more for public spending, when the City are signally, to the contrary, that they think that is precisely what they should be doing.

Perhaps the most interesting development in yesterday's announcements – which wasn't quite so prominent in the media reporting – was the arrival of what Eric Pickles referred to as “muscular localism”. In fact, of course, that is a total misrepresentation of what he is talking about. The Government wants houses built. And it largely wants them built where builders want to build them. Mr Pickles doesn't want local authorities standing in the way of these desires. So if local authorities take too long to decide or have a record of “poor-quality” decision making then responsibility for decisions can be passed to the Planning Inspectorate.

Given local authority budget cuts have affected planning departments it would not be surprising if decisions are taking longer. That opens up more scope for removing land use planning powers from more local authorities, as those who were previously keeping on top of the work succumb to the pressure.

We await a definition of “poor-quality” in this context but we must presume it means decisions that Mr Pickles and the house building industry disagree with. Our cuddly Communities Secretary comments rather ominously:³¹

... Good local authorities we will work together with. It is only those local authorities who frankly have been dragging their feet and being wholly unrealistic, operating in a kind of economic la la land, we will be dealing with.

But what of localism? The Government has just gone through the process of legislating to give communities and neighbourhoods more power to shape development in their area. What if the majority view is that they don't want more development? It would appear that this is not a valid answer:³²

The Localism Act has put the power to plan back in the hands of communities, but with this power comes responsibility; a responsibility to meet their needs for

²⁸ <http://www.alexarchives.org/expensive-homes-for-wealthy-people/>

²⁹ <http://www.alexarchives.org/housing-associations-and-new-policy-induced-risks/>

³⁰ <http://www.tullettprebon.com/announcements/strategyinsights/notes/2010/SIN20120824.pdf> (Last accessed: 24/06/13)

³¹ <http://www.guardian.co.uk/politics/2012/sep/06/eric-pickles-councils-planning-powers> (Last accessed: 24/06/13)

³² <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120906/wmstext/120906m0001.htm> (Last accessed: 24/06/13)

development and growth, and to deal quickly and effectively with proposals that will deliver homes, jobs and facilities.

Clearly, if a proposal is for a scheme that will deliver homes, jobs and facilities then the answer the community must come to is “go ahead”, regardless of whether there is genuine local support for it. Otherwise the decision will be formally relocated to someone who will green light it. It would appear that any power for communities to shape their own destiny is being stripped away shortly after they were given it.

This reassertion of the dominance of Westminster – which has done so much to undermine people’s engagement with local politics – is so unnecessary. Many planners had already got the message following the implementation of the National Planning Policy Framework. Permission was not being unreasonably withheld. There are plenty of outstanding permissions in the system but homes are still not getting built.

The Government’s obsession with planning bureaucracy is very real. And to deny that planning processes could not be improved would be absurd. But this policy development is taking place in a parallel universe. There may be problems with the planning system. But it isn’t the short term problem. The broader adverse economic and financial context is at the root of the problem. Yesterday we saw the OECD downgrade its forecast for UK economic growth for next from growth of 0.5% to a contraction of 0.7%. If that is in any way accurate then it will blow the Government’s economic plans entirely out the water.

The Government can hack away at planning all it likes. Its friends in the construction industry will no doubt be very grateful. But unless the mortgage market improves, consumers’ price expectations stabilise and their confidence in their own economic future increases there is no one with the wherewithal or the willingness to buy the properties. So they won’t get built.

The missing ingredient ...

1st November 2012

What’s missing from the story of Britain’s ongoing housing crisis?

From the Government we’ve had the usual market fundamentalist refrain that the root of the problem is planning and regulation. So we’re presented with various proposals to deal with the problem. First, the Government invited representatives of the development industry to assist in rewriting planning guidance to their benefit as part of the process of drawing up the new National Planning Policy Framework. Then we had the proposal to relax planning regulations on house extensions and conservatories in order to allow households to expand *in situ*. The Growth and Infrastructure Bill has now emerged to cut localism off at the knees by proposing to take power away from local planning authorities and centralise it whenever the Secretary of State deems local decision making not to be to his liking.

Finally, the Government is now reviewing building regulations to see what can be discarded. Because, as anyone who has ever visited one will know, recently constructed properties in the UK at all price points are built to an unreasonably high standard.

Short term expediency and boosting profitability for the Conservatives' friends in the construction industry are key.

The fact that properties being built or modified now are likely to have an effective life of over a century, so it might be a good idea to build them well, is clearly the sort of theoretical concern only someone in an ivory tower would raise.

But Government's perspective is only one among several.

The Government's critics would argue that this focus upon planning and regulation is misplaced. On the supply side it ignores developers' behaviour. They have been rebuilding their balance sheets and boosting profitability, but not expanding output. Good for them, not so great for the country.

Beyond supply issues the problems are manifold. The problems associated with housing finance are well rehearsed. The continuing stagnation of incomes and ongoing uncertainty in the labour market mean that the demand for home ownership is muted. It's not surprising that developers aren't building if few are able and willing to buy.

These factors have all been in the mix in contemporary discussion. Debate continues over how to disentangle them and quite where to strike the balance in terms of the causes of the current predicament.

But it strikes me that at least one thing is missing from the discussion – land ownership.

The other day I went back and read Winston Churchill's famous speeches on land.³³ The speeches were made during Churchill's sojourn in the Liberal Party and were associated with the 1909 People's Budget. They are held up as some of the most powerful advocacy of land taxes that there has ever been. One of the interesting features of those speeches, apart for being rhetorically much more sophisticated than much contemporary political discourse, is just how many of the arguments have contemporary resonance. For example, Churchill rails against the use of what he calls the "poor widow" bogey to justify not taxing land. We now talk of the injustice of taxing the property of the asset rich and income poor.

But the most striking thing about Churchill's argument that it is framed in a context where spatial planning was largely absent. Yet insufficient land release was still being identified as problematic because it led to overcrowding and lack of affordability. The Government today identifies an over-restrictive planning system as the root of this problem. Churchill identified the profiteering land owner, holding on to the land in order to extract an ever greater sale price, as being the root of this problem. His argument in favour of a land tax was, perhaps not surprisingly, that changing the holding costs of land will encourage land release and hence improve living conditions for the urban poor.

We hear very little about the contemporary land market. There are certainly discussions, albeit perhaps relatively infrequent, of developers' optioning and land banking and forward land supply. And developers are very keen that public sector landholders be compelled to release their land at bargain basement prices.

³³ <http://homepage.ntlworld.com/janusg/chrchl.htm> (Last accessed: 24/06/13)

But rarely do you see disaggregated analysis of private land holdings to explore whether local land markets are competitive. At the same time there is very limited research on the aggregate structure of land holding. But land holding appears to continue to be relatively concentrated. A recent paper by Home³⁴ notes that:

At the beginning of the 21st century, notwithstanding the growth of home ownership, landed wealth is still concentrated in relatively few hands ... An estimated 200,000 individuals (mostly comprising the monarchy, aristocracy and gentry) own about two-thirds of the land, and [it has been] estimated that some 1700 individuals owned a third of all land.

Given this situation, it is highly likely that within specific local housing markets there exist monopolies of land suitable for development, even before we get to the question of whether that land is designated for development by the planning system. The planning system may compound problems, but it is largely blind to the underlying structure of land ownership. The source of slow land release would be better sought in attempts to maximise monopoly profit than in the zoning of insufficient land for development.

It is curious that the question of land ownership – which was so central to the arguments Churchill advanced – have largely disappeared off the policy radar. Undoubtedly it serves the landed interest well.

Perhaps it is time to expand the debate to revisit this territory.

Nick Boles and the philosophy of the garden

29th November 2012

To what sorts of things do people have moral rights? That's a profound question worthy of more than a mere blog post.

We could turn to the thirty articles of the Universal Declaration of Human Rights for inspiration.³⁵ We'll see an aspirational list of rights which still, more than 60 years after its adoption, many countries fail to deliver in full. In that list at number three we have:

- Everyone has the right to life, liberty and security of person.

Now we know that "liberty" and its realisation is a complex concept. It can, though, incorporate access to adequate housing as a foundation for personal development and security.

But we needn't try to use Article 3 to cover the issue. We've got further resources to draw on when thinking about housing.

³⁴ Home, R. (2009) Land ownership in the United Kingdom: Trends, preferences and future challenges, *Land Use Policy*, s103-s108.

³⁵ <http://www.un.org/en/documents/udhr/index.shtml#atop> (Last accessed: 24/06/13)

Article 17 includes the provision that “everyone has the right to own property alone as well as in association with others” and “No one shall be arbitrarily deprived of his property”. That is, no one should be precluded *de facto* or *de jure* from owning property and their property should be secure. I don’t think this necessarily implies that there has to be enough property available for everyone to own some.

Beyond this we have some more specific rights:

Article 22

- Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.

Article 25

- (1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.
- (2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection

Both of these articles are relevant to housing. Indeed Article 25 explicitly links housing to the right to a standard of living adequate for health and well-being.

But nowhere in the UN Declaration is the right to a house with a garden identified, for families, as a key human right on a par with access to medical care or education (which is covered by Article 16). So when Mr Boles, our new Planning Minister, declares access to a house with a garden to be a moral right we are witnessing some philosophical innovation. I’m sure at some point the case will be made more rigorously than in a media interview.

Of course, we can argue that all Mr Boles was doing is localising the definition of ‘housing’ necessary to achieve an adequate standard of living to the UK context. A concept of British suburban life conceived as a human right. The implication is that everyone with children living at present without access to their own garden is having their rights infringed.

This is rather nonsensical. It is surely the case that children need access to secure outside space in which to play. That could be a garden. One could argue that if the Government has sold off all the playing fields and all the parks have been abandoned as a result of the collapse in municipal finances then all the secure space that is left in which children can play is, in fact, in gardens. But that seems to me to be an argument that could just as easily be constructed as the immorality of a government intent on asset stripping the public realm as it is about moral rights. So it hardly carries the case.

I'm not suggesting that access to a house with a garden is a trivial matter. I'm suggesting placing it on a par with the right to freedom from torture, inhuman or degrading treatment probably isn't sensible. And if Mr Boles believes that it is so intrinsically important he should presumably be lobbying his colleagues Mr Duncan-Smith and Mr Pickles to change the direction on welfare reform and allocations policy. Because current Government policy is going to deprive a fair number of households of a house with a garden and send them to overcrowded temporary accommodation. Or is access to such accommodation only a right for some people in some circumstances? Principally those who can pay their way without assistance from the state. If so then it is conditional, so not really a moral right equivalent to the right not to be held in slavery or servitude.

This attempt to pitch the discussion on a moral plane is a shame because it detracts from the argument. Embedded in Boles' position are some very important and very good points. He is right that much contemporary new build in Britain is inadequate. We build the smallest new homes in Europe. He is right that housing is too expensive. In my view he is right that it is possible for the built environment to be as beautiful as open country. But it often isn't. He is right that because new homes tend to be small, ugly and expensive existing communities tend to be reluctant to allow new development.

Those are points that have been made by others. Matthew Taylor has long argued that the reason communities are reluctant to allow development is that they know that new development is likely to be incremental and comprise unattractive poky little boxes with inadequate amenities, green spaces and infrastructure. But the reason development takes this form is because the planning system, under pressure from existing communities, will not allow sufficient large single tranches of land to be released to allow properly masterplanned new developments. It's a vicious Catch 22.

Breaking out of this cycle is made harder by localism, in its current form. This would appear to be the reason why policy has turned to thinking about Garden Cities.

Boles is right to focus on the contradiction between the wishes of older households not to see development locally and their concerns that their children have nowhere to live.

But this is an issue fraught with political danger.

Boles is effectively threatening the position of the Conservatives' natural constituency of older wealthy home owners by suggesting they are selfish and should allow lots of new development locally in order to make housing more affordable. That is, they should support the reduction in the value of their own property.

He is also indirectly raising, but not dealing with, issues on which racism is never far away. If you care to go to the online version of any of the articles covering Boles' comments – at the Guardian, the Telegraph, the BBC – you will see many of the commenters arguing that Boles is taking the wrong strategy. We don't need more houses. What we need to do is to stop all these immigrants coming over here and taking the existing houses. And we need to stop them breeding so many children, unlike the responsible English. It seems there is quite a broad stratum of English society that would ascribe most of the country's ills to immigrants, if it is not blaming the EU. Or, indeed, blaming the EU for the immigrants.

We shouldn't be talking about human rights. We should be talking about English rights.

That much of the growth in the demand for housing is a product of an ageing population, changing patterns of independent living, and internal rather than cross-national migration does not feature quite so prominently in the debate.

Alongside these views there are arguments about overpopulation and the sustainability of current levels of population growth relative to the carrying capacity of the globe. Those arguments have rather different motivation. But there is a bit of a blue-green (or, possibly, blue-green-yellow/purple) alliance on this issue.

I think Boles played the argument wrong politically. He is right to suggest that more land needs to be released for development and that we need to be building bigger and cheaper homes, although the garden issue is a bit of a red herring. But he would have managed the political fallout better if this had been constructed as one part of a broader strategy. The Government is doing good work on bringing empty homes back into use, although it is not doing enough of it and it is not tackling some parts of the problem – especially people leaving second homes empty for large parts of the year. It is doing nothing serious about addressing under-occupation in the owner occupied sector. The need for bigger and cheaper homes does not necessarily entail releasing open land, whether in or outside the Green Belt. It could equally be focused on exhausting the potential of brownfield land in the first instance.

If he'd set his comments in this context then they would no doubt have been more palatable. Without doing so, he leaves open the possibility of interpreting the case as having little to do with meeting housing need and more to do with giving a green light for the Conservatives' friends in the development industry, who don't find brownfield development sufficiently profitable for their tastes, to make large incursions into the Green Belt and make stack loads more cash.

Whether or not that is, in fact, what is driving the agenda, it is the impression created. Well played.

In a pickle over planning

28th December 2012

One of the Coalition government's first acts was to signal the intention to get rid of Regional Spatial Strategies (RSSs). They were seen as the embodiment of Labour's centralising, top-down approach. In their stead we were to enter a new era of localism. Or, possibly, Localism. Spatial planning would have a much stronger bottom-up component. Local people would have a greater say in shaping the way their area developed, including levels of new housing construction locally. The rhetoric may have been of the removal of the dead hand of the State and of local people warmly embracing house building in their neighbourhood, enticed by financial initiatives such as the New Homes Bonus. The reality was never going to be quite like that. And the claims that power is being localised have become ever harder to sustain. Mr Pickles seems to be placing ever more weight on the role

of the Planning Inspectorate in overruling and overriding local plans that he doesn't consider to be acceptable.

It was pretty obvious to anyone who knew anything about planning that removing the RSSs was going to lead to a reduction in house building targets. Local authorities didn't like the strategies precisely because they imposed higher house building targets than those preferred locally. So removing the RSSs was going to see targets adjusted downwards in many areas. It seemed equally obvious that the sorts of incentives on offer through the New Homes Bonus or other mechanisms – such as the Community Infrastructure Levy – were not going to be sufficiently powerful to counteract this.

Anecdotally we've been hearing that this is precisely what has been happening across the country. Today the Policy Exchange produced a brief note, based on research by Tetlow King, that provides some more systematic evidence.³⁶ It reports that as at mid-2012 some 57% of responding local authorities had reduced their house building targets. And that since 2010 local authorities in England have reduced the number of new homes they were planning by 272,720.

These numbers need to be seen in context. Even when the RSSs were in operation house building never achieved the levels required to meet housing need. Though targets were set, they weren't met. But at least we had some indication of the size of the shortfall.

The system at the moment is delivering fewer new homes per annum than almost any peacetime year since the First World War. That represents less than half of what is typically seen as necessary to keep pace with growing housing need.

So if we don't think top-down strategies are effective, and we don't think localism in its current form is going to deliver the homes we need, then what do we do?

The note from the Policy Exchange advocates some of what you'd expect it to advocate. For example, it considers that the planning system needs to be more flexible around use classes or brownfield redevelopment, and that there are blockages in the planning system that have distorting effects on the development industry. It also suggests changing the incentives by directing the CIL at people who live near proposed new development rather than to the council more generally. It also suggests that the system needs to become more bottom-up so that neighbourhood plans should overrule local plans.

But the note also identifies some issues that are perhaps a little less obviously from the PX playbook, and are probably more important. It notes that the notion of housing need – the foundation of the whole system – is too nebulous. I'm not sure I agree, but I would certainly agree that it isn't "objective" in the way that the National Planning Policy Framework assumes it is. The note reasserts that: "Too little weight is given by the planners to design and quality – or often a vision of design and quality is imposed that is even the reverse of what most people want". This is a vital point that needs to be given much greater prominence. It also suggests: "Further work is needed on how developers' models operate and areas such as self-build" and argues, more specifically, that: "Work on areas like self-build and changing developer models of land procurement and construction is needed". This is an important and welcome acknowledgement that we need to look beyond the

³⁶ <http://policyexchange.org.uk/images/publications/planning%20for%20less.pdf> (Last accessed: 24/06/13)

planning system for the nature of the problems with housing supply. As I have blogged previously, it would be good to also add the operation of the land market into the mix of the discussion.

If we are going to get a grip on this issue we need a much more comprehensive political economy of housing supply.

It is not simply an economic question, or a question of individual incentives. It also has a strong social component.

It is not simply about the bureaucratic impediments created by planning. It is also about market structure.

It is not simply about price. It is also about design and quality.

It is not simply about whether top-down diktat or incentivised bottom-up decisions will deliver more new housing. It is about better understanding why people do not want new homes built locally. And how those views are folded back into the policy process.

After all, in setting lower targets than those central government saw as desirable, local authorities were not overriding the views of local residents so much as reflecting them. Or rather reflecting the views of those local residents who engage with local political processes. And that is overwhelmingly older people and property owners. It has already been suggested that the Government's Localism agenda has made things worse because it is effectively a charter for "grey power" and NIMBYism.

Resistance to house building is some mix of fear of change in general, fear of impact upon amenity and social environment, fear of impact on house prices, and fear of "the other". Unknown people – people who we aren't quite sure are like us – may arrive and disrupt the area. For some it is about protecting what is mine, regardless of the negative consequences that might have for you or anyone else. There is a visceral element to this which financial incentives, unless extraordinarily generous, will struggle to overcome.

Surely it would be cheaper and, in the long run, more effective to seek to foster a greater sense of empathy and identification with those shut out of local housing markets. We would like to overcome resistance to local development. But we would also like local residents to welcome, rather than simply tolerate, development. This requires genuine engagement.

Help to Buy?

20th March 2013

The objections to George Osborne's latest wheeze to assist the housing market are hardly worth discussing. They are almost too obvious. And they have been rehearsed at length in relation to similar, smaller scale initiatives that have already been tried.

The new "Help to Buy" scheme, announced in today's Budget, aims to provide equity loans of up to 20% of the value of new properties worth less than £600,000. Households have to come up with a 5% deposit to participate. The Chancellor is proposing that the scheme be

backed up with government guarantees sufficient to support £130 billion of mortgages. The guarantee scheme will start in 2014 for a period of three years.

Just about the only perspective from which this initiative makes sense is carrying through on an absolute determination not to add directly to the public sector deficit, but not minding too much if the guarantees get lost amongst everything else in the public debt.

So it probably makes perfect sense to the Treasury.

Otherwise, the scheme has almost nothing to commend it. The economic illiteracy it displays is remarkable. The fact that, coming from the current occupant of No 11, this is no great surprise is perhaps equally remarkable.

No sensible person disputes that our housing system is gravely ill. On the one hand, prices have almost returned to the levels witnessed at the height of the 2000s boom. But this time the macroeconomy is in a parlous state, real incomes are declining and mortgage markets are much tighter. At the same time new housing supply has collapsed to record low levels. Everything is very much out of kilter. Last year only 40% of the houses required to meet housing need were built. And those record low levels of construction have occurred while existing versions of the Government equity loan approach have been in operation. Needless to say these schemes have had almost negligible impact on supply so far.

The principal symptoms of our misfiring housing market are high prices and low levels of new supply. The two are, of course, related. Supplementary – and related – problems include the fact that those unable to access owner occupation are paying very high rents in the private rented sector and this is preventing them from accumulating savings to afford a deposit.

The broad strategies available to the government to deal with these symptoms are either to reduce prices to bring them within reach of household incomes or to boost the resources available to households to afford prevailing prices.

The former strategy is the one preferred by most housing economists and informed commentators. Delivering the strategy entails engineering an increase in supply. It could also involve regulation of credit limits for individual households to stop any relaxation of credit standards fuelling a price bubble.

Reduced prices would mean not only that the costs of servicing a mortgage would be lower but also that household finances would be more resilient in the face of the interest rate rises that will surely arrive eventually, unless the new Bank of England regime leads to the abandonment of all attempts to manage inflation. Reduced prices would also lead to a reduction in the deposit required to purchase a property, even if loan-to-value ratios stay the same.

The key question for this strategy is how to bring forth new supply. The Government has focused on changing the planning regime. This is supposed to lead to a significant expansion of private sector speculative house building. The Government has not followed the path well-trodden in periods of post-war reconstruction and invested directly in the construction of affordable housing. Nor has it been sympathetic to arguments that local authorities should be allowed to borrow more on the back of unencumbered housing assets.

I have blogged several times over the last few years that the obsession with planning is misplaced. It is of great benefit to construction companies to face as few constraints on their discretion as possible. So, of course, they will support arguments for watering down planning regulations. But weaker regulations are not automatically followed by builders springing into action.

The housing supply system requires a much more fundamental rethink, including looking closely at the increasing industrial concentration in the house building industry and the concentrated nature of ownership in the land market.

But the Help to Buy scheme largely ignores the intricacies of this debate. It focuses instead on the alternative strategy of trying to boost the resources available to households to afford prevailing prices. The Government's proposed equity loan is interest free for the first five years and can be paid back on resale.

At first sight this sounds like it will help households access homeownership. And no doubt it will help some. It allows those who can't afford to buy because they only have a 5% deposit to meet lender requirements for a 20%-25% deposit. Except that the scheme – like any scheme that boosts demand in the face of inelastic supply – is also likely to push up house prices. That in turn would increase indebtedness. Providing lenders with a guarantee against loss from more risky lending almost ensures that prices will be pushed up. Unless it is very careful with the detail of the guarantee, the Government is building substantial perverse incentives into the scheme. We may find ourselves back on the fast track to subprime central.

The only way to avoid prices increasing in the face of increased demand is a sharp supply response. The government claims to expect this scheme to act as a boost to new construction. But at the moment we're experiencing prices that are almost at record highs and we don't find ourselves in the midst of a housing construction boom. So, absent significant institutional reform, it isn't entirely clear quite what the Government is basing its expectation on.

The net result of this initiative is that it will help to sustain prices, which is great for older home owners, who may possibly be inclined to vote Conservative, and for house builders who have properties they'd like to shift at current prices. But it is unlikely to do much to increase access and affordability for first time buyers currently locked out of the market.

The political economy of Help to Buy

20th April 2013

When the Chancellor announced his two-part Help to Buy scheme in the Budget last month it was met with a chorus of disapproval. Representatives from the mortgage and construction industries – who, of course, have a financial interest in seeing the scheme

implemented – were positive about it. Pretty much everyone else thought it was a pretty dumb idea.

When I reviewed the scheme at the time I noted:

Just about the only perspective from which this initiative makes sense is carrying through on an absolute determination not to add directly to the public sector deficit, but not minding too much if the guarantees get lost amongst everything else in the public debt.

So it probably makes perfect sense to the Treasury.

Otherwise, the scheme has almost nothing to commend it. The economic illiteracy it displays is remarkable. The fact that, coming from the current occupant of No 11, this is no great surprise is perhaps equally remarkable.

The debate has now been joined by the Treasury Select Committee in its report on the 2013 Budget.³⁷ What comes through clearly from the paragraphs of the Select Committee's report is that they are not hugely impressed with the Help to Buy scheme. But it is perhaps even more clear is that the Committee is not at all impressed with the quality of thought – or lack of it – that underpins the scheme. They finish their discussion of the scheme with a list of 17 questions they would like the Treasury to answer (para 182). These questions address topics of an absolutely fundamental nature. They are the basics that need to be in place before it is possible to conduct a sensible appraisal of the wisdom of spending more than £15 billion under the Help to Buy scheme. You get the unmistakable sense that the Select Committee is frustrated, and not a little alarmed, that the Treasury is as yet unable to provide clear answers to even the simplest of questions (Para 177: "As far as can be understood from the Chancellor's evidence, ...").

Most of the issues covered by the Select Committee report have already been discussed. And the pattern of industry support for the scheme contrasted with scepticism elsewhere repeats itself.

One important further dimension the Select Committee adds to the debate – apart from further weight behind the criticism – is a form of the slippery slope argument.

Help to Buy is intended to be an intervention designed to deal with a temporary "market failure" – although whether this is a market failure in any conventional sense or lenders having a perfectly accurate assessment of the risks associated with high loan-to-value lending in the current market context is a matter of debate. The Select Committee recognises that once the path of intervention in the market has been taken, particularly on such a large scale, there could be considerable difficulties in the Government extricating itself from the situation. Indeed, given that once the guarantee scheme is in place the Government will have a financial interest in keeping house prices elevated in order to avoid

³⁷ <http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news/treasury-committee-publishes-report-on-the-budget-2013/> (Last accessed: 24/06/13)

losses to the taxpayer, it may well have an incentive to perpetuate the problems we're facing.

So the Select Committee spent no little time reflecting on the exit strategy from the scheme. It concluded:

175. ... Our concern is that, should the current scarcity of high loan-to-value mortgages reflect structural rather than cyclical factors, the pressure for Government to extend the scheme in three years time will be immense. The unintended and unwelcome outcome could well be that a scheme designed to deal with a supposedly temporary problem in the UK housing market becomes a permanent feature of the UK housing market.

176. The decision to out-source to the FPC whether to continue with the scheme may be a recognition that curtailing the scheme after three years will be politically difficult, as has been the case with housing support and subsidy programmes in previous decades. However, it is not clear that, given its remit, the FPC is best-placed to take this decision, nor that the decision should be out-sourced at all. ...

178. The closure of housing support measures has often been fiercely resisted. The FPC's reluctance even to ask for a loan-to-value macro-prudential tool, preferring instead a less politically visible proxy, sectoral capital requirements, is a reflection of this. There is a strong case that such decisions should be made by politicians acting on advice, in this case advice from the FPC.

This last point is telling. We can already see that the FPC itself is not immune to political pressure and factoring political considerations in to its decision making. What reason is there to think that this won't be the case when we get to 2017? There is a clear danger that the Government is in the process of stumbling thoughtlessly into a set of institutional arrangements that not only make the housing market situation worse but are, for political reasons, very difficult to alter. We risk getting locked in to an even more dysfunctional system.

I have yet to see anything to demonstrate that Help to Buy is the right strategy to pursue. It has very few friends beyond those who are in line to benefit politically or financially from it. This should surely raise alarm bells.

Everyone, including the Treasury, agrees that lack of supply is at the heart of the problems of the housing system. But no one, as far as I can tell, thinks that Help to Buy is the most effective way to address supply issues. It appears that the Treasury Select Committee doesn't entirely buy the Government's argument that lack of supply is a result of planning constraints. But it is forthright in its view that rather than messing about trying to deliver new supply through schemes like Help to Buy:

Overall, ... if the Government's priority was housing supply, its housing measures should have concentrated there. (para 171)

Amen to that.

Bungalow build

23rd April 2013

Over the last few years the Policy Exchange has been a prolific contributor to the debate over the direction of housing policy. As regular readers will know, I have not always been entirely complimentary about those contributions. In particular the PX regularly exhibits an unhealthy fixation with the planning system as the source of Britain's housing supply woes. I'm not aware of anyone who thinks the planning system is perfect, but to lay the blame entirely at its doorstep is too simplistic. I suspect PX knows that full well: its work on other aspects of housing supply shows a more sophisticated understanding of the interlocking problems that have led the system to its current parlous state. I can only assume that it is somehow constitutionally obliged to have a dig at "top down, centralised planning" in all housing-related publications.

Planning is again the bogeyman in the most recent brief PX publication on *Housing and Intergenerational Fairness*, produced for Hanover.³⁸ But its invocation is rather incidental and a little half-hearted. The discussion treats planning as both more inflexible and less contextualised than it is. That is the case regarding the discussion of density. Planning systems may well have specified (re)development at higher densities. But that is not a timeless given. It is part of a broader agenda driven by concerns for sustainable, compact cities rather than sprawl, and long-term energy dependence. It is not simply caprice on the part of planners.

Anyway, the critique of the planning system is not really central to the contribution the new publication makes to the debate.

On my reading the piece makes three useful contributions.

First, it provides one of the best brief overviews of the social and economic consequences of the dysfunctional UK housing market that I've read. We can quibble about some of the individual points made along the way, but, overall, it does a very good job as a call to urgent action on housing.

Second, it provides an important reminder about the incentives for older people to trade down to smaller properties in later life. Putting some numbers on the issue reminds us that there is already a substantial financial advantage to trading down – a considerable six-figure sum in the south east of England – and yet it doesn't happen as often as it needs to if we are to free up family sized stock for families with children. Something else stands in the way. I

³⁸ <http://www.policyexchange.org.uk/images/publications/housing%20and%20intergenerational%20fairness.pdf>
(Last accessed: 24/06/13)

would suggest that the explanation is complex, and it needs to include some reference to uncertainties about the cost of long-term care in later life. The PX points primarily to the absence of acceptable smaller dwellings.

And that leads to its third useful contribution. The PX argument is that part of the problem is an absence of bungalows. Very few have been built in recent years, in part because of edicts about density. Yet they are popular in general, and popular with older people in particular. The argument is that if more bungalows were built then there would be more trading down in later life and that would free up the system. Encouraging more self-build would, it is implied, enhance the effect. Presumably by allowing things to become a bit more vernacular.

I like the bungalow argument. Not necessarily because I agree with the idea that we need more bungalows specifically, although I've lived in a bungalow and it was, y'know, alright. The more general point is that the key to the problem is appropriate, good quality accommodation available locally.

The argument opens up the dimensions of the debate and invites exploration. It raises questions about housing consumer preferences and the extent to which they should drive the system. And the extent to which they are resilient in the face of alternative policy aspirations. Housing policy might think in terms of the desirability of building flexible lifetime homes that can accommodate people of all ages. It might also see building at greater density to be a key part of a broader environmental agenda. But what if this runs hard up against engrained cultural presumptions which mean such homes don't find favour with key consumer groups?

Building with lower densities and fewer floors might be the only way to entice older people to downsize in the sort of numbers required to improve access and affordability for younger people. That would most likely have serious implications for the broader agendas around the environment and sustainable settlements.

It would also, clearly, be only one part of the solution to the UK's housing supply and affordability problem. But it strikes me that asking whether we have struck the balance in the right place on issues of supply and sustainability is useful. The PX don't quite construct the issue in that way – but that is implicit in what they are proposing.

Of course, arriving at a satisfactory answer to the question is a rather more subtle task.

The perversity of the politics of housing

31st May 2013

The abject failure of housing policy is among the biggest challenges facing this country yet it barely gets a mention on the hustings or in any political debate.

(Anthony Hilton, Evening Standard, 28/05/13)

There was a time when the stance taken by the major political parties on housing issues was a key General Election battleground. But that was half a century ago. With high costs and insecurity pervasive, the UK housing market is evidently very sick at the moment. This has significant short- and long-term consequences for the broader macroeconomy and significant impacts on households' well-being. Yet, housing policy has so far failed to gain real political traction.

When the Government does propose to intervene on a substantial scale – in the form of Help to Buy – the policy is all about political calculation and very little about doing what needs doing to get the housing system into better shape. Indeed, beyond the Treasury and the industry interest groups that stand to benefit directly, commentators across the spectrum – including the IMF and the OECD – display near unity in condemning the policy as extremely unwise. I have had words about Help to Buy on a couple of previous occasions.

Most recently, Isabel Hardman posted yesterday at the Telegraph and linked the Chancellor's pursuit of Help to Buy to the failure to pursue serious reform of the planning system in order to increase housing supply.³⁹ Action on supply – which most informed commentators agree is long overdue – fails the test of political calculation. Older home owners who don't want more development in their areas vote – and often vote Tory – while younger people living in high cost rented housing are less likely to. Too much talk of increased house building means Shire Tories start to get antsy about their support in their local parties. So support for any reform to encourage more development withers.

And this is the case when we focus on planning alone. As regular readers of this blog will know, my view is that it is foolish to lay the blame for Britain's supply failure exclusively at the door of the planning system. We need also to be looking at concentration in the land market and the construction industry as barriers to increasing supply. But that is so far off the political agenda as to move into the realms of fantasy politics.

If we switch focus to renting we see great political concern over the size of the housing benefit bill. Moves to restrain the aggregate bill focus on symptoms and consistently misdiagnose causes. There is a failure to acknowledge that the situation we face is the legacy of thirty years of housing policy action and inaction, and the interaction between housing policy and wider economic and policy change.

There are widespread calls for government to support more house building directly, rather than indirectly through guarantees. This would deliver a short-term economic boost as well as longer term gains in economic efficiency. There are calls for a return to constructing conventional social housing at subsidized rents. This will reduce the reliance on housing benefit as the primary means of ensuring low and middle income households are able to access adequate housing. It would also be better value for money when judged over an appropriate investment horizon.

A turn in this policy direction would represent a reorientation of 30 years of policy thinking. But perhaps more importantly it would require politicians to stop thinking like contemporary politicians – obsessed with short-term electoral calculation.

³⁹ <http://www.telegraph.co.uk/earth/greenpolitics/planning/10089428/George-Osbornes-botch-job-has-left-housing-in-crisis.html> (Last accessed: 24/06/13)

At the moment the incentives are not there. The housing benefit bill is high. In order to get that bill down via constructing more social housing in the short term total housing policy spend is going to have to increase. The housing benefit savings emerge in the medium term. But this appears to fail the test of electoral calculation. That is certainly the case for a Government that continues its perverse and slavish adherence to the rhetoric of austerity and couples it with what appears to be an increasing commitment to protecting spend on traditional Tory shibboleths – defence, security, immigration. The problem is compounded by the fact that housing is an area where responsibility is split – with supply the responsibility of CLG and housing benefit part of DWP’s empire – so potential costs and benefits accrue to different Ministers. Holistic thinking is required, but it is not in any particular politician’s interest to do any.

A publication by Shelter last year made the reorientation point neatly in relation to a rebalancing between housing benefit and price subsidies:⁴⁰

The challenge for Ministers is to think less like politicians focused on populist benefit cuts and short-term thinking, and more like business people working towards a long-term investment plan.

But as soon as you see the words you are struck by how unlikely this is to happen among the current generation of politicians.

The task for those who are passionate about housing, and addressing the problems caused by inadequate housing, is to think about how the problem can be reframed. It needs to be reframed in such a way that dealing with it aligns with the sort of incentives to which modern politicians are sensitive. I noted a couple of weeks ago the way in which, of perceived necessity, some housing problems are being reframed in relation to health in order to access health budgets.⁴¹ That is one example of telling the story differently in order to gain traction and reorient priorities.

The narratives surrounding housing and its consequences need to be changed. The conversation needs to be taking place on a different terrain. The breadth and the depth of the ramifications of the housing problem need to be spelt out. The issues need to be reconstructed in ways that mean they achieve sufficient urgency and significance to penetrate the Westminster bubble and hit the top of the agenda. Dealing with the housing problem needs to become politically unavoidable.

Politicians may suddenly discover a sense of broader vision and a commitment to statesmanship and stewardship. That might compel them to embrace longer-term thinking over shorter-term electoral calculation. But I’m not holding my breath on that one. So the alternative is to engage in a process of reframing to get their attention.

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http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/briks_or_benefits_rebalancing_housing_investment (Last accessed: 24/06/13)

⁴¹ <http://www.alexarchives.org/making-the-housing-case-to-health/>

And if we could encourage greater democratic participation among those most adversely affected by current policies then that would act to intensify the pressure for a different sort of housing politics. But that, of course, raises a whole other set of challenges.

Is use it or lose it the answer?

23rd June 2013

The components of a Labour housing policy are gradually being revealed. First we had some pronouncements on the need for longer tenancies and more stability in private renting. Then we had the idea that what we need is less money spent on benefit and more spent on building affordable rented housing. And yesterday we had Ed Miliband's comments on boosting housing supply, as part of a wide ranging speech on the theme *The discipline to make a difference*.

The central contention was that the key to the housing supply problem is land hoarding – organisations and individuals owning land that could be developed but with no intention of developing it. This is a practice that needs to be discouraged, principally by giving local authorities more powers, including time-limiting planning permissions.

Here is the relevant passage:

For decades now, Britain simply hasn't built enough homes. Fewer now than since the 1920s. And the result has been that the prices of houses and flats have gone up and up and up, even in these difficult economic times. According to figures this week, many young working people will now have to save for 30 years before they can afford a deposit for a new home. Denying them the start in life their parents' took for granted. That is wrong.

It is why we should be investing now in house building. Nobody should be in any doubt of this party's commitment to building homes.

But building more homes doesn't just need resources. We have to be willing to confront some of the obstacles to house building. Across our country, there are land-owners with planning permission, sitting on land, waiting for it to accumulate in value and not building on it. We have to change that. Including giving councils real power to say to developers that they should either use the land or lose the land.

This suggestion has had a mixed reception. In a familiar refrain, those of a conventional economic persuasion have suggested that the issue isn't the behaviour of developers but the constraints of the planning system. From the Conservative side Mr Miliband's suggestion has been labelled "incoherent". In contrast, the IPPR broadly welcome the proposal, although, to be frank, the thinking behind the IPPR version of the idea is rather more

sophisticated than the case presented by Miliband.⁴² Yet, even on the Labour side not everyone is fully on board. Hopi Sen offered a more sceptical response to the proposals.⁴³ He makes the very fair point that the scale of genuine land hoarding, as opposed to landbanking by speculative builders in order to ensure a flow of development sites, is not at all clear. He also notes that it is most likely going to be relatively straightforward to avoid any simple “use it or lose it” rule.

Given that planning permission is already time-limited, presumably the issue is more crucially what happens when the time is up on a permission. At present renewal is largely automatic. Giving local authorities a wider range of tools at that stage could be valuable. Having the ability, in certain circumstances, to force the release of land through CPO, or something similar, and then market it for development could be valuable.

Opening up the discussion of housing supply so that it does not focus simply upon the deficiencies – real and imagined – of the planning system as the root of the problem is to be welcomed. Some focused attention on the nature of the land market, in particular on the way in which land ownership is highly concentrated, is long overdue. It would have been good to add into the mix, as the IPPR have previously suggested, consideration of the impact that increasing levels of industrial concentration has had on the output of the housebuilding industry. Houses are built to ensure profitability is maintained and shareholders are satisfied. If that is best done by developing relatively few properties then that is what will happen. This isn't a public service.

As I have blogged previously, the issue of housing supply needs to be looked at holistically. Much of the money in house building is actually made in land speculation, trading and holding. This favours operating at scale. This in turn makes access to land by small scale builders and self-builders difficult. In part these characteristics are a response to the need to manage the risks associated with the planning system. But that is not the whole explanation. After all, industrial concentration in the house building industry has increased over the last couple of decades – and particularly in the last half a dozen years – but the planning system hasn't changed dramatically.

When thinking about housing supply holistically we also need to locate it in the context of spatial development more broadly. We need to link housing supply to the broader policy agenda around rebalancing the economy. And make sure that rebalancing the economy has a spatial not just a sectoral component. The UK economy would seem to be subject to strong centripetal forces. Economic activity is sucked out of the regions and towards London. If the need to increase housing supply is driven by affordability problems, and affordability problems are in turn driven by increases in housing demand, then it is important to look at the drivers of that demand.

Simple standard economic models would suggest that it is impossible for regional growth to keep on diverging indefinitely. The cost differentials between high cost growth areas and low cost areas of decline would eventually mean that it was in employers' interests to set up in lower cost areas. This drives a process of spatial equilibration. Less

⁴² http://www.ippr.org/?p=1080&option=com_wordpress&Itemid=17 (Last accessed: 23/06/13)

⁴³ <http://hopisen.com/2013/land-hoarding-and-banking-one-for-the-how-hammer/> (Last accessed: 23/06/13)

conventional economists, and more recent models under the heading of the new economic geography, would in contrast talk of virtuous circles, self-reinforcing mechanisms and processes of divergence and spatial concentration. These processes are either not self-equilibrating or equilibrium can embody substantial spatial inequalities, depending on the model.

The question of whether policy can or should do anything to try to reshape spatial development continues to be contested.

The Town and Country Planning system was established in the post-World War Two period. This was an era of active industrial and regional policy. These policy fields were complementary. There was a belief that not only should government manage spatial development but that it had effective levers to do so.

Currently we have largely unrestrained spatial economic growth. When it comes to industrial and regional policy comprehensive approaches have been rejected and government does little more than tinker around the edges. This does not mesh particularly well with the Town and Country Planning system. The question is whether the problem lies on the Town and Country Planning side. Or is it the absence of effective strategies for balanced spatial development?

Whether such strategies are possible is a separate question. The key point is that this debate, wherever it's happening, is not connecting very meaningfully with the housing debate.

Yet, if we're going to come to grips with the housing supply problem then we need to recover the big picture before real progress is going to be made. Use it or lose it, however positive a move in its own terms, is only going to make a superficial dent in the problem.

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