

# *Bigger Better Faster More – the housing market*

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*The Gladstone Club  
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House price inflation is so ubiquitous across the English speaking world that we have come to regard it as a natural law. Rises averaging 3.9% per year have seen prices triple here over 30 years even as the overpriced houses got smaller. Surely, we think, that is just the nature of developed economies? Not so: over the same period in Germany and Switzerland prices have been stable and new homes got bigger.

In Britain house prices have so far outstripped earnings that most families cannot afford to buy a home. Mortgage lenders upped their multipliers from 3x earnings to 4.5x but the breadwinner of a young family can be in the top tax bracket and fall well short of the £250k for a 2-bed worker's cottage in Bermondsey let alone the £300k average London house price.

Dr. Oliver Marc Hartwich is an academic in Economics and Law poached from his native Essen to work for Lord Oakeshott on the 2004 Pensions Bill. Now with Policy Exchange he has authored three studies on UK housing. Dr. Hartwich says Britain has the oldest, smallest, most expensive houses in the developed world and that it is a lot to do with our low rate of house building. The Germans and Swiss build bigger, better, faster and more.

## **Subdivide UK, unite GDR**

Today the average new dwelling in Britain is 76sqm, in Ireland 88sqm but in Germany 109sqm. Our new houses have shrunk to be considerably smaller than the old staple 90sqm Victorian 2-up-2-down semis that line the London suburbs. To a British audience Hartwich's most shocking revelation is that flats or houses of 80sqm cannot be sold in Switzerland and are being knocked together or demolished. That is radically opposite to the trend here, where larger houses are frequently being subdivided into flats.

Does this simply reflect decreasing UK average household sizes with separation of unmarried couples on the rise and an older generation living out a longer life alone? Actually not. Identical social trends are observable in Germany. It also does not reflect increasing affluence seen in other indicators like rising car ownership and consumer goods. UK GDP per capita has grown faster avg 2.1% per year since 1970 than Germany 1.4% or Switzerland 0.9%.

## **Small island**

It's a small island and growing population density inevitably means smaller houses? Wrong again. Population has grown 7.5% here a little more than Germany's 5% but a lot less than the 14% in Switzerland. Current population density is 247 persons

per km<sup>2</sup> a third above Switzerland's 181 but only a slender 0.4% higher than Germany's 230. Here Campaign for the Protection of Rural England wants to save our countryside from being concreted over but although 90% of us live in urban areas they still occupy only 10% of the land. So it is a myth that Britain is densely populated or all built over but Dr Hartwich says there is a good reason why it feels that way. It takes an hour to drive out of town at 15mph and then we spend the next hour at 90mph hardly noticing as miles of fields pass by. Even away from cities, strip development along roads fosters the same illusion but look down from a plane even flying out of London and England is a patchwork quilt of gentle greens and browns stretching in all directions.

So how have countries with similar demographics and population density to ours avoided mad house price inflation? Dr Hartwich reckons the answer is in their systems of planning and local democracy. Here the planning process applies an effective democratic brake upon development. The term NIMBY-ism (not in my back yard) expresses the influence of existing home owners objecting to new developments. They are local residents so it is democratic. Potential residents are not represented and local communities have no exposure to the economic benefits of immigration to counteract NIMBY impulse.

By contrast, in Germany, central government grants are linked to local population, so local politicians compete to attract new inhabitants to their areas. 40% of local revenue is linked to population including 15% of income tax being collected at municipal level. It is even possible to offer existing residents tax reductions as a benefit of immigration. The Ruhr conurbation has 5.3m inhabitants. Municipal authorities release low cost land at the periphery and give subsidies to young families for house building. There is no 'Green Belt' concept but 60% of the area is green: parks, forests and gardens. Rate of house building has varied between 16% and 100% higher than in Britain and room sizes are 35% bigger.

Switzerland has an even more devolved federal structure. Overall taxation is low at 31% and 2/3<sup>rds</sup> is raised directly by the 26 cantons and sub-cantons. They have the power to determine tax rates and attracting new inhabitants enables them to set lower taxes. The rate of house building is 24% to 80% per capita higher than in Britain and sizes are even bigger than Germany's with new freehold flats averaging 111sqm and houses 170sqm. Yet on average the Swiss spend only 16-18% of income on housing.

They have a very different pattern of development: houses are built by families. Owner occupiers naturally maximise the size of their dwelling while speculative volume housebuilders seek the maximum number of dwelling units per plot and of bedrooms per unit. Hence the reducing house sizes with a lot of bedrooms just big enough to get round the end of the bed. The planning system again comes in for criticism. With so much resistance to permission for building it is achievable only by big businesses that can fund the risk of the planning process. For their part Local Authorities find it easier to have the fight over releasing greenfield land in one go rather than frequently and piecemeal.

## **Smaller island**

Ireland is surprisingly sparsely populated with ¼ the density of the UK but an equally crazy credit-fueled boom underway as in the UK (as also in the US). In Ireland a permissive planning regime is allowing a spree of house-building at the expense of the countryside. Two bricks in a field, it is said, will get consent to build a house. Far from this increased supply tempering prices as Policy Exchange predict, the 'Celtic Tiger' is a speculative boom with rising prices, loose planning and easy credit fueling the building spree. Policy Exchange say this is 'an impressive increase in house building but too late to prevent rampant house price inflation'.

Dr Hartwich gives us eye-opening stats and some brilliant insights but his conclusions rather rehearse Policy Exchange's long-running campaign to loosen planning controls and permit more house-building as the solution to housing inequality. They ignore the counter-argument made by town planners that volume house-builders are already sitting on consents for 125,000 houses in the Southeast of England where demand is highest and not building them. PE's argument for more supply promises magnificent windfalls for peri-urban landowners and the fate of Ireland's countryside but no disincentives against holding land with consent out of use. So there is more to discover of the secret of German and Swiss price stability. As Sir Peter Hall hints in his Foreword to the paper, the missing part of the answer is likely to be found in their tax regimes.