

The cost of homes

It is not surprising the cost of homes is so high, given the large increases in demand from new household formation, and the attempts to ration or limit supply by the planning system and the actions of the main housebuilders. It is also the case that pumping money into the system at low interest rates makes higher mortgages affordable for more people, so home prices like bonds and shares have risen thanks to QE and low official interest rates.

To contain prices we need to cut demand and raise supply to better balance. Markets would do this for us but we have instead migration policies, housebuilding standards and planning policies that give government crucial roles. The government via Councils and Housing Associations is also a major developer itself. All the time interest rates remain low we should expect mortgages at higher multiples of earnings to be affordable.

In a managed system the government could reduce migration numbers as it has promised to do. It can continue with efforts to increase the number of homes built. It can also ask whether its standards and specifications are the right ones to encourage more building. A combination of UK government standards and wish to produce traditional looking buildings by the industry means a lot of work takes place on site. The UK has not taken up factory made sections and components on the same scale as in some other countries. It means the task of building is prone to delays for bad weather. It requires a lot of on site supervision to ensure decent quality, matters which would be partly taken care of by precision machinery in a factory prefabricating more of the home. The structure of the house building industry with its heavy regulation and high financing demands mean that most of the housing is supplied by a few large companies. They say they are constrained by a lack of skilled people and the need to maintain and supervise high standards from building more homes more quickly against all the planning permissions already granted.

Tomorrow I will look at the latest proposed government intervention into this government steered sector with their plan to use planning gains to offer discounts to some people on buying a new first home.