The crisis of housing affordability in the UK is spreading far into the wider national economy, a new election analysis from the Centre for Economic Performance (CEP) at LSE said today.

House prices have grown faster in the UK than in any other developed country, the report shows. And as housing becomes ever more unaffordable, especially for younger households trying to get on the housing ladder, economic productivity is being severely damaged as house prices exclude workers from the most productive jobs.

What’s more, the growing divide between the haves and have-nots is eroding social cohesion and restricting the ability of those in declining local economies to relocate to find jobs.

“Housing affordability is a key concern of an increasing number of UK voters who are crammed into artificially limited space,” Paul Cheshire, joint author of the report and Emeritus Professor of Economic Geography at LSE, said. “It also underlies the sense of being shut out of prosperity. In declining local economies housing may be affordable, but people may feel trapped as regional price differences mean that they become increasingly priced out of access to better-paid jobs elsewhere.”

The new report says that the main cause of the housing affordability crisis is a lack of houses – estimated as a shortfall of at least 3.1 million new homes in the last 30 years. The authors explain that the UK’s rigid planning system has been instrumental in stemming supply.

“Demand-side policies such as Help-to-Buy are not working in supply-constrained areas such as London because they merely increase house prices,” Christian Hilber, joint author of the report and Professor of Economic Geography at LSE, said.

“Relaxing planning rules and reforming the council tax and stamp duty system could help. The obstacles to adopting such policies must not be underestimated since they are likely to antagonise vested interests. But without action, the housing crisis could ultimately prove socially explosive and economically traumatic.”

The report shows:

- Housing in London is the most expensive in any major prime city in the world. Over the last 40 years, the cost of housing in the UK grew faster than in any other OECD country, far outstripping earnings growth.
- Housing affordability deteriorated sharply after 2000 and, with a pause for the global financial crisis, has continued to get worse. The median house price in Greater London is 8.4 times the median income. The average house price across the UK is 4.8 times the average income.
• Home ownership overall rose steadily till 2003, then started to decline. Housing assets have been redistributed to older and richer people and to those whose parents were themselves home owners. Together with increasing regional house price differences, this means that more and more people are not just excluded from valuable assets but priced out of access to better jobs.

• The housing crisis is largely due to a lack of housing. The UK’s planning system is the main cause of this. Construction of new homes, especially in higher demand areas, has been decreasing steadily since the 1970s.

• The main constraint on supply is lack of space: Green Belts prevent outward growth, height restrictions stop upward growth. Reform may be politically difficult but there is enough Green Belt land of no environmental or amenity value close to commuter stations in just five city-regions, to build 2 million homes. Coupled with aligning incentives to encourage building this could raise £100 billion of revenues to fund infrastructure and local services.

• Given the constraints on housing supply, the main effect of policies stimulating demand is to increase house prices. In supply-constrained, typically high demand, areas Help-to-Buy actually made housing less affordable. The price increase of newly-built homes outweighed the help to individuals. In these areas house building was static, only profits of registered developers increased.

• Taxation contributes to the problem. Council Tax provides scant incentive for local communities to allow development. Together with the politicised local decision-making in planning, this fuels NIMBYism. Stamp Duty taxes mobility. It discourages downsizing and hampers growing families buying roomier housing.

• A local land tax with annual revaluation and proceeds flowing to local communities would provide incentives for development.

The full CEP Election Analysis is available here: UK Housing Policies: Evidence from economic research

Notes for editors:

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Christian Hilber is Professor of Economic Geography at the London School of Economics and an associate of the Centre for Economic Performance.

UK Housing Policies: Evidence from economic research is one in a series of election briefings produced by the Centre for Economic Performance, LSE. The series aims to provide an impartial, evidence-based analysis of the key issues in the 2019 UK general election including education, social mobility, immigration, the labour market and regional policy.

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