

The Real eState with Peter Bill

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Wonderland is a zone in which politicians make laws in attempts to force developers to build homes. No-Wonderland is the real world in which market forces prevail. Does an answer to the conundrum of how to boost production lie in the soil?



Welcome to housing Wonderland, a talking zone peopled by politicians and policy wonks. Directives aimed at solving the 'housing crisis' materialise from time to time. Most would make Stalin proud: "seize back unbuilt land" - "force developers to build more." Nostrums trotted out by both Left and Right, please note. A textbook example was published on June 13th by Civitas. The centre-right think tank feels the left-of-centre notion of giving private renters the right to buy is a fine and noble idea. No bets on how fast the private rented sector would flop if this hair-brained plan was enacted.

Less cockamamie solutions get enacted. Hot out of Wonderland on May 12th came the 2016 Housing and Planning Act. A 217-clause portmanteau which Wonderland natives hope will make builders erect more homes. The Big Idea is the market-warping Starter Homes Initiative. First time buyers get a 20% discount of an oh-so-easily manipulated market value. A plan that will work as well as any in the parade of state interventions: at the margin. So, why do the politicians bother? Because voters get angry about a lack of housing. Peddling the myth that Wonderland can increase supply is a political necessity.

Welcome to housing No-Wonderland, the real action zone. The Home Builders Federation last month issued a "statement of intent," promising to double the 109 000 homes built in 2010 to 218 000 by 2020. No wonder. Completions in England rose by 21% last year to 143 000. At that rate, this barn-door sized target will be hit in 2018. If growth slows to 10% per year, over 200 000 homes will be built in 2020. But, but, but... the market could fall off a cliff. Who knows? But know this: the rate of construction is dictated by free market forces, not by state intervention. If sales stop, so does building.

The basic fact is this: completion rates are regulated by the price set. That price tends to be 20% above 'used' prices. Volume builders bank on selling about 0.7 homes per week per site. If homes sell faster, smaller batches are released for sale. This allows prices to be hiked until demand drops back to the budgeted sales rate. If you're selling 10 a week, the price is too low. What difference will the starter home initiative make? Watch to see if average sales per week per site rise, or not. Here's my bet: the price set for starter homes will be coupled to the model that regulates demand to one a week.

There is a way for Wonderland to have a limited effect. One third of a new home's cost lies in the land. Planning laws mean Wonderland has control over what gets built. But bidders are forced to plan for the mix of units that make the most money. If not, they lose the land to someone who will. If politicians want affordable homes, they need to introduce new use classes for whatever type of homes they desire to placate voters. Then, zone accordingly. That cuts the price of the land to a level that will allow said units to be built affordably. As TV gardener Ted Moulton used to say "the answer lies in the soil."

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