

SUPPLY IS THE MAIN ANSWER TO THE HOUSING CRISIS

Abstract

Building more homes has become the favoured solution to the 'housing crisis' but dissenters have emerged. [Ian Mulheim](#) (2019) has supplied the most sophisticated denial that the housing crisis can be overcome by building more homes. His analysis is based on a comparison of housing supply and household formation, an examination of 'concealed' households and studies of the relationship between extra housing supply and house price reductions.

This post argues housing, as consumption good, should not be constrained by 'top down', 'predict and supply' calculations. In addition, it claims that Mulheim ignores the connections between housing supply and household formation, not necessarily manifest in 'concealed' households; underplays the size of homes delivered especially through 'net additions'; is vague on the new supply/house prices relationship and appears to place some of the responsibility for the 'housing crisis' on migration whereas governments set both migration and housing policy and have the responsibility to match supply to demand.

MAIN TEXT

Building more homes has become the favoured solution to the housing crisis but dissenters have emerged. [Ryan-Collins](#), (2018) attributed the lion's share of the blame for rising house prices not to the lack of homes but to the infatuation of financial institutions with property as an investment vehicle. In supporting his case Ryan-Collins points to the 'debt shift' in the 1990s, when the financial institutions moved their lending away from investment in production to domestic and commercial real estate purchase. The Bow Group of Conservatives MPs has claimed: 'Building more houses, despite being the solution most widely touted, is not the answer to the UK housing crisis ... building more houses will not have a downward effect on prices' ([Valentine, 2015](#) p 4). A similar position is taken by [Spiers](#), (2018), former Chief Executive of the Campaign to Protect Rural England (CPRE). This narrative is gaining ground (see conclusion) and has been boosted by [Ian Mulheim](#) (2019).

Mulheim's analysis is the most sophisticated denial that the housing crisis can be overcome by building more homes. His housing demand/need account compared to supply is almost entirely based on comparing dwelling supply (number of dwellings available) and the estimated number of households. Mulheim's question is 'Tackling the UK housing crisis: is supply the answer?' with 'No' the answer. His examination of the issue belongs to 'predict and provide' approach to housing supply, used for many years by the Ministry of Housing, Communities and Local Government (MHCLG) and its predecessors. The 'predict and provide' approach has been criticised, mainly by free market economists, because it interferes with the market. We do not 'predict' and then apply 'top down'

supply restrictions for other commodities such as cars, beer, TVs, clothing etc. so why for housing? The answers can be found in the planning system — development rights were awarded to local authorities under the 1947 Town and Country Planning Act — and that there is an international market in cars, beer, TVs, clothing whereas demand and supply for housing is mainly domestic. ‘Predict and supply’ is an integral element of the planning process with the MHCLG now setting targets for each local authority planning authority based, in part, on local projections of household formation (see [DCLG](#), 2017).

Demand Led Housing Supply

If housing is considered as demand led by consumers then a number of issues are raised by Mulheim’s analysis.

A ‘top down’ supply limitation thwarts consumer preferences for better and larger homes. The 1961 [Parker Morris Report](#) stated:

A good house or flat can never be made out of premises which are too small....An increasing proportion of people are coming to expect their home to do more than just fulfil the basic requirement. It must be something of which they can be proud and in which they can express the fullness of their lives.

New homes are far more energy efficient than older homes and often contain amenities with consumer appeal such as internet access points, an ample supply of power points and built-in wardrobes. Size is a moot point. A report by the [English Housing Survey](#) (2018) reached some very vague conclusions, finding that, although some types of new homes were getting smaller at times in the 1980s and 1990s, more recently built homes have got bigger, albeit that some of this change may reflect the mix built. However, the consensus of academic research is that new houses are getting smaller.

As [Williams](#) (2009 p 1) has stated ‘the general currency for housing statistics, planning practice and house sales is the number of bedrooms’. Although, in England, bedroom numbers and the house proportion relative to flats in new build homes has increased since 2009/10, the dwellings built post 2005 consist of 44% flats and 54% with two or less bedrooms compared to 18% flats and 37% with two or less bedrooms for dwellings built before 2005 ([Wilson et al](#), 2018). UK figures on housing space price per square metre are sparse but new UK houses are expensive ‘rabbit hutches’ compared to their continental equivalents. In 2014 the average size UK new home size was 87 square metres compared to 109.2 (Germany); 137 (Denmark); 112.8 (France) 96 (Austria) and 82.2 (Portugal) [[Jones, 2017](#)]. €200,000 bought 119 m² in Spain, 94 m², in Belgium, 97 m² in Germany and 39 m² in the UK ([Deloitte, 2016](#)).

A rough and ready calculation of new house size in relationship to occupancy placed UK houses at the 12th lowest in a 16 country list, above only Hong Kong, Russia, Italy and China ([Shrinkthatfootprint](#), 2018). Central guidance on space standards — introduced in 2015 and officially known as the ‘nationally described space standard’ — gives local authorities the option to set minimum sizes for new homes. Although 37m² is now the minimum legal standard in London for a new-build one person flat, under the ‘permitted development’ system, developers who convert offices into homes do not have to meet minimum floor area standards and the smallest studio flats in a London office block conversion were a ‘dog kennel’ 16m² ([Guardian](#), 2017).

Many family houses have been converted into flats. Considering all dwellings — existing and new — [Williams](#) (2009) comments:

In terms of *dwelling size*, the UK has the 5th smallest homes in Europe, 87 m².... However, it has the 4th (joint) highest number of rooms (4.7). Hence, the UK has, on average, the third smallest average room sizes (18.5 m²).... If one compares UK house sizes with countries such as the USA (average dwelling size 215 m²) and Australia (average dwelling size 227.6 m²) an even more contrasting picture emerges.

For the majority of working-age households in England, floor space per person has been flat or has fallen since the mid-1990s and, for private renters in London, space per person declined by a quarter between 1996 and 2012 ([Belfield et al](#), 2015). [Tunstall](#) (2015), having examined housing space distribution over time, concluded that housing space inequality declined from the 1920s to the 1980s but then increased, and, by 2011, space inequality was back to 1950s levels. By 2014 the average family home had shrunk by two square metres since 2004 and it was estimated that 150,000 children had seen their bedrooms partitioned in an attempt to create extra bedrooms ([Liverpool Victoria Insurance](#), 2014).

Mulheim does not mention overcrowding. The English Housing Survey measures overcrowding by the ‘bedroom standard’ but its low sample size, leading to overcrowding figures being presented as three year moving averages and its 54.4% response rate raise questions on whether the survey includes ‘difficult to reach’ households. The number of private renter households recorded as overcrowded by the bedroom standard increased from 187,000 in 2010 to 283,000 in 2018/19 and social renter households from 278,000 to 318,000 ([MHCLG, 2020](#)). 1.3% of owner-occupier households were overcrowded.

Space is particularly important for ‘second steppers’. Many first-time buyers have stretched their resources to get onto the first rung of the homeowner ladder and, although their first purchase may

produce extra equity if prices have increased, in relative terms it is likely that the larger house they want to buy has increased by more than their present home. Moreover, in many parts of the UK house prices have declined in real terms since 2007 ([BBC News](#), 2017) with the homes bought by first-time buyers declining by relatively more than the houses they want to move into thus leaving potential movers short on equity. [Lloyds Bank](#) (2018) reported that the average price gap between the existing residence of potential second steppers and the required property to accommodate an expanding family was £135, 985, varying from £77449 in Northern Ireland to £300,599 in Greater London. An average of £85,877 equity in existing homes reduced the standard cost of a move.

Mortgage availability also restricts finance for extensions. To acquire extra space, more households with children have had to live in the rented sector, that, although more expensive in the long-run, is easier to access and offers the opportunity to claim HB — now called Local Housing Allowance when claimed by privately renting tenants — that is unavailable to working owner-occupier households. According to the English Housing Survey, the number of households moving *from* homeownership each year into the private rented sector increased from 129,000 in 2003/4 to 170,000 in 2013/14 but recently been in decline reaching 96,000 in 2018/9 ([MHCLG, 2020](#)).

Movers are also planning to make sacrifices to sell their first home and achieve their second property aims. Almost three in ten (28%) of ‘second steppers’ have said that they will have fewer children than originally planned due to the challenges they have faced whilst trying to make the next move. This is up by 16% from last year. More Second Steppers are also delaying having children due to the difficulties faced. Lloyds Bank mortgages director Andrew Mason says: “When considering their next property purchase, second steppers typically look for more space, a better location and a garden. However, first-time sellers now say they have to wait longer to take the next step in the current buyers’ market ([Lloyds Bank](#) , 2018).

Ironically as space standards in homes have declined, TVs — not limited by central and local decisions on what we need — have got bigger with the 70 inch screen now ‘normal’ ([Telegraph](#), 2018).

The Housing Stock

Mulheim records the growth in net additional dwellings in England stating:

The housing stock in England has therefore grown about 14% faster than the number of households over the period of interest. As a result, the ‘surplus’ housing stock (dwellings over households) grew by around 70%, from 660,000 in 1996 to 1.12 million by March 2018.

Second homes do not feature in Mulheim's analysis. The [Resolution Foundation](#) (2019) found that second homes (not rented) had increased from 1m in 2008/10 to 1.4million in 2014/6. 22% of these second homes were overseas, a reduction from 34% in 2008/10.

Space is again relevant to the supply issue. Mulheim uses net additions as his new stock measure but since 2013, when 'permitted development' was allowed, 100,000 homes have been created through this route — all approved without planning committee approval. A RICS investigation found that not only were 77% of the homes built studio flats but many were as small as 15m² or 16m², compared with a minimum space standard of 37m² in London ([Building](#) 2019).

Location, location, location

The Estate Agent's adage that three things sell a house — location, location and location — is reflected in house prices. Thus in considering whether or not is supply the answer to tackling the UK housing crisis dwelling location is important.

In presenting figures on house prices and households Mulheim uses *regional* figures to supplement his national figures but regions contain very large variations in housing circumstances *between* and *within* local authorities. *Housing in the United Kingdom: Whose Crisis* ([Lund](#), 2019) sets out some of differences between Solihull and Walsall in the West Midlands: Northumberland and Middlesbrough in the North East: Wokingham and Slough in South East and Oldham and Cheshire East in the North West. The disparities are stark. As an example, in Oldham 43% of houses are detached or semi-detached, 67% in Cheshire East and three times as many homes are overcrowded in Oldham than in Cheshire East. The gap between Child poverty before and after housing costs in Oldham (27.3% and 40.7%) is 13.4%, in Cheshire East (11.2% and 18.2%) it is 7%.

Sources: [End Child Poverty](#)(2018): [DCLG](#) 2017)

With 65% of its neighbourhoods in the 20% of the most deprived areas nationally, Oldham has been labelled 'the most deprived town in England' ([Independent](#), 2016). However, 35% were not and Oldham Metropolitan District contains some affluent districts. Indeed, in 2011 Oldham's Gini Income coefficient was 39.1, one of the highest in the North West and [Bradshaw and Bloor](#) (2016) ranked Oldham as England's 23rd most unequal borough. North Saddleworth, the most affluent local authority ward has a £40,000 median household income compared to £17,335 in Coldhurst, the poorest ward. Overcrowding in North Saddleworth is low at 2.9% compared to Coldhurst at 21.6%, with a very marked contrast in the per cent of children living in overcrowded houses (43.1% in Coldhurst, 6% in North Saddleworth). 77% of the households in North Saddleworth can afford to keep their homes in a decent condition but only 34% in Coldhurst. In North Saddleworth the anti

social behaviour rate was 190 per 10,000 inhabitants compared to 800 in Coldhurst (all statistics from [Ward Profiles](#), 2018). In 2016, the average house price in Saddleworth North was three times higher than in Coldhurst. Renting a two bedroom house would cost £625 per month in North Saddleworth, £475 in Coldhurst. In North Saddleworth 98.5% of the population was classified 'white', in Coldhurst 27.1%. The per cent of children in poverty living in Coldhurst increased from 46.7% before housing costs to 62.1% after housing costs, the highest rate in the UK. In contrast the per cent of poor children was 5.66 (before housing costs) and 9.17 (after housing costs) in Saddleworth North ([End Child Poverty](#), 2018).

Oldham would benefit from new homes in the right places. What a pity that the Housing Market Renewal Initiative was so badly designed and implemented.

Household Formation

The number of households relative to the number of dwellings is Mulheim's central concern.

He makes three major points:

- Government projections of household formation have consistently over-estimated the number of new households that have been formed;
- New household formation has been lower than new housing supply;
- The rise in 'concealed' or 'hidden' households can be explained by increases in migration.

Commenting on official household projections, Mulheim states:

Yet those projections have proven consistently to be far too high. Fig. 3 shows a selection of successive household formation projections since the 1992-based numbers of the Department of the Environment, up to DCLG's 2014-based estimates, released in 2016. It shows that all of these projections anticipated there would be somewhere between 500,000 and 1.1 million more households in England by 2018 than the LFS suggests have actually appeared.

Government household projections are based on previous trends. [The House of Commons Environment Committee](#) (1996) addressed the technical question of restricting supply at the national level. It concluded 'we should expect people to form households whatever their circumstances,

whether conditions are favourable to them or not'. In other words, households will form and will be manifest in concealed and sharing households.

Back in the late 1960s when I moved into my local authority house, divorce law was based on matrimonial offense and the local newspaper gleefully reported each case. Several of my neighbours appeared under their council house address with adultery often the named cause of the marital breakdown. Had I come to an area of infidelity? No. For various reasons housing was readily available on my estate and women in unhappy marriages moved in leaving their husbands behind with the court proceedings giving their new address. Housing supply influences household formation and unhappy marriages are not revealed in concealed households. 'Second steppers' not having more children due to lack of space is another dimension of the issue, as is the 16% of under 45 year olds saying they had postponed getting married due to their housing prospects ([Lawrence](#), 2016). A survey for the [Affordable Housing Commission](#) (2020) found that 13% of UK adults polled (under the age of 45 in a couple) have delayed or not had children due to their housing situation — potentially affecting 1.8m people nationally. The household is manifest, its potential size is not.

Government projections of household formation are 'rear-view mirror' estimates based on *past* trends in birth rates, death rates, net migration and household formation rates. Past trends reflect housing access at the time the projection was made. Gateways into housing deteriorated from the early 2000s. Therefore, is it surprising that household projections made in the 1990s and subsequently over-estimated the rate of household formation?

The 2014-based projections ([DCLG](#), 2016) envisaged an increase in households from 22.7 million in 2014 to 28.0 million in 2039. Annual average household growth was indicated as 210,000 per year between 2014 and 2039 with average household size falling from 2.35 in 2014 to 2.21 in 2039 and net migration accounting for 37% of household growth. However, household formation rates are influenced by housing supply. The 2006 projections, for example, prepared when net additional housing supply was increasing in England by over 200,000 per year, anticipated a 247,000 per year growth in household formation up to 2013. Compared to 2006, the projections based on 2014 data, using household formation rates between 2001 and 2011 estimated 37,000 fewer households forming per year up to 2039, despite a larger population and an average net house addition 97,000 per year below the 247,000 per year household formation projected in 2006. When the 2014 household projections were made there were only 136, 610 net annual new additions to the housing stock in England.

Experience in the USA sheds more light on the issue. Noting how household formation rates in the USA are highly sensitive to housing affordability, the [Joint Center for Housing Studies, Harvard University](#) (2016) stated:

High housing costs are clearly a barrier to living independently for many younger adults. In the 100 largest metros, household headship rates for 25–29 year-olds are significantly lower in areas where housing is least affordable (as measured by renter cost-burden rates). Indeed, headship rates among this age group in the 25 least affordable metros are a full 10 percentage points lower than those in the 25 most affordable metros.

The barriers to household formation ought to be revealed in ‘concealed’ or ‘hidden’ households but, as explained above, people in unhappy marriages and restricting family size will not appear in ‘concealed’ household estimates.

Mulheim reviews a number of studies on the sensitivity of prices to housing supply and states:

To put these figures in context, it is worth considering the situation in England. The latest available data suggests that the first half of 2018 England had a total of just under 24.2 million dwellings, 4.9% more than the number of households. The above relationships suggest that, if households in England were to form at a rate of 200,000 per year, net additions of 300,000 per year would cut real terms house prices by 0.8% per year, all else equal. Applying the range of UK estimates above, such rate of additions might therefore be expected to reduce prices by between 7% and 13% over 20 years.

I have no ways to challenge these figures but, in 2019, there were 1,190,000 residential property transactions in the UK ([Statista](#), 2020) and about 277,000 net additions to the housing stock. Thus, about 1 in 4 residential property transactions were net additions. 350,000 extra homes per year might have an impact on house prices. Did any of the studies quoted by Mulheim examine the possible impact of 350,000 extra homes per year? Post 1934, when 350,000 homes per year were built in the UK, both nominal and real house prices declined ([Samy](#), 2015).

Moreover, have the new homes been in the right places to influence prices (little point in building lots of homes where they are relatively plentiful)? The experience in England suggests they have not, with the planning system acting as a barrier to new building in areas of housing shortage (see [DCLG, 2017](#)). We need to know the impact of higher supply in specific locations. Nevertheless, a possible 13% nationwide reduction in national house prices is worth having,

Mulheim makes a distinction between children living with their parents and hidden households. His figures indicate a dramatic increase in the number of 20 to 34 year olds living with their parents that started in 2003. Between 2003 and 2018 the 2.4 million to 3.3 million, an increase Mulheim attributes to this to the relative decline of wages amongst younger people, benefit cuts and the decline in social housing availability but no evidence is given on the relative importance of these variables.

On 'hidden' households Mulheim states:

The second dynamic that has contributed to growing household size is an apparent increase in the number of 'hidden households'. There are several ways to define this concept, but in essence these are represented by heads of family units who share a house with one or more other family units. While some of this sharing might occur out of choice, some may also occur because the cost of housing makes sharing more economical. According to the LFS, the number of second or subsequent family units within UK households increased from 7.2% of all family units in 1997 to 8.5% in 2018. This represents some 400,000 more hidden households in 2018 than there would have been had the rate remained unchanged. It is reasonable to imagine that one of the causes of this change could be deteriorating affordability, for the reasons discussed above. However, over the same period the UK has experienced a significant change in the composition of the population that appears to explain the growth in hidden households. The foreign-born population of the UK increased from 5.2 to 9.3 million between 2004 and 2018. If we decompose hidden households according to migration status, it is clear that the UK-born proportion has not changed over the past 20 years, and the increase has been concentrated among migrant households

Although it is refreshing to find migration included in academic analyses of the housing issue — the working class who consider themselves to have been disproportionately affected by immigration can be annoyed by its neglect — Mulheim seems to imply that immigration is the cause of housing problems. However, governments set both migration and housing policy, hence concealed migrant households result from the lack of housing supply — a government responsibility. Moreover, there is a discrepancy between Mulheim's approximation of concealed households and other estimates. [Fitzpatrick et al](#) (2018 p xvii) state:

The numbers of concealed households remain high in England despite ostensibly favourable employment conditions and a recovering housing market. There were 2.32 million households containing concealed single adults in England in early 2017, in

addition to 282,000 concealed couples and lone parents. The number of adults in these concealed household units is estimated at 3.38 million.

Conclusion

Mulheim makes some pertinent points particularly in relationship to the ways that lower wages rates for younger people and the post 2008 restrictions on mortgage finance have affected home ownership rates. However, the role of private landlordism in mounting housing costs and restricting homeownership is underplayed as is the social class dimension to the 'housing crisis'. Moreover, the ways that finance was injected into the housing market in the 2000s *without* taking action to improve supply is neglected. [Alistair Darling](#) (2011), New Labour's Chancellor during the 'global financial crisis', said: Ironically, the spectacular failure of successive British governments to deliver increased house-building proved to be a blessing for the housing market, which did not fall anywhere near as much as people feared'.

Caveats need to be registered against Mulheim's assertion that supply is not the answer. First, he seems unaware that supply influences household formation. Second, he fails to appreciate that supply deficits are local — between and within local government areas —not exclusively regional. Third, he ignores housing quality.

This generates the qualm that his analysis is an excuse for past policy failure. Mulheim is the Executive Director and Chief Economist of *Renewing the Centre* at the Tony Blair Institute for Global Change and had been an economist at HM Treasury.

Tony Blair showed little interest in housing policy. In his autobiography he makes only two references to housing — one to his first speech as Prime Minister made at the Aylesbury Estate and the other to his personal housing situation. As he contemplated resigning as Prime Minister Blair — seemingly oblivious to his government's role in house price inflation — commented 'Meanwhile, I prepared for the likely departure. Cherie and I had been out of the London housing market since 1997, during which time prices had rocketed' ([Blair](#), 2010 p.504). Blair's housing record was disappointingly poor.

Suspicion that the answer to the 'housing crisis' is being promoted as outside supply is reinforced by the [Building Better, Building Beautiful Commission's report](#) (2020). It is a ringing endorsement of the present planning system with 'beauty' promoted. Yes 'permitted development' is criticised but the report states:

There is scope for targeted and carefully drafted use of permitted development rights to free up the delivery of new development, whilst ensuring it achieves better place making. But we are not there yet.

Moreover, the existing planning system is strongly endorsed with the report stating:

But most people believe that the beauty of our country is more precious, and that the financial sacrifice is unquestionably worth it. How else do we explain the existence of the National Trust, with nearly 6 million members, the Campaign to Protect Rural England, the Civic Trusts and the long history of civic-inspired town planning movements, culminating in the Royal Town Planning Institute (RTPI) and the Town and Country Planning Association (TCPA) today?

An alternative explanation of the support for this multitude of rural defence groups is that they represent the vested interests in maintaining and boosting house values in the protected areas.

The report quotes the architect Clough William-Ellis (1928 p 3) as saying ‘A happy awareness of beauty about us should and could be the everyday condition of us all.’ William-Ellis was a fierce critic of suburban development between the wars asserting that suburbia was an ‘octopus strangling England’ and a ‘Beast’ destroying the countryside ([William-Ellis](#), 1937).

The [Building Better, Building Beautiful Commission’s report](#) (2020) said that ‘The government should commit to a radical plan to plant two million street trees within five years, create new community orchards, plant a fruit tree for every home but where is the land on which to plant the trees?’

Mulheim’s conclusions that limited housing supply is not the cause of the ‘UK Housing Crisis’ might provoke misgivings that new house building generates hostility in Conservative owner-occupied heartlands. Indeed the [2019 Conservative Party manifesto](#) stated that the aim was to build ‘at least a million new homes during the next parliament’, which implied a target of 200,000 homes a year. This is lower than the current rate of new housebuilding — 213,660 new homes a year — and a lot lower than the 247,000 on the ‘net additions’ measure. Other manifesto declarations such as a promise to provide infrastructure before development takes place and the usual strong Conservative commitment to Green Belts indicated that Theresa May’s enhanced building programme was causing problems in the Tory heartlands (and beyond) so would be scaled back.

During the 1945 general election campaign Aneurin Bevan said: ‘We have been the dreamers, we have been the sufferers, and now, we are the builders.’ (quoted in [Kynaston](#), 2008). In the past 30 years new housing construction has come to be regarded, at best, as grim necessity yet building homes is a

virtuous activity and should not only be about keeping pace with population growth, alleviating homelessness and overcrowding or reducing house prices (although this is important). It is also about meeting consumer preferences and adding to the quality of life.

Sustained, robust, new house construction, built on cheaper land made possible by planning system reforms, would produce:

- More choice in where to live;
- Better design by employing architects;
- More 'balanced' communities in new developments so that poverty becomes less concentrated;
- Improvement in energy efficiency;
- More internal space;
- Gardens: a fruit tree in every garden, swings, rabbit hutches, wildlife (foxes, hedgehogs, robins, starlings, wrens etc)
- Help for disabled people by building more houses, building more dwellings to 'lifetime' homes standard.