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Evaluating UK housing policies to tackle housing affordability

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Abstract

Purpose – The purpose of this paper is to present an analytical summary of UK housing policies. It aims to evaluate UK government’s housing policies, before and after the publication of the Barker Review, to tackle affordability issues in the owner-occupied sector. It examines the extent to which housing policy contributes to or alleviates the problem of the affordability of owner-occupied housing.

Design/methodology/approach – This paper evaluates the impact of UK government housing policies since 2000 on housing affordability by analysing their impact on the dynamics of housing demand and supply.

Findings – The Barker Review, which applied simple economic ideas and techniques in analysing the owner-occupied UK housing market, argued that increases in new housing supply would help to improve housing affordability. The second Barker Review suggested that changes to the planning system were needed in order not only to increase new housing supply, but to make housing supply more sensitive to changing demands. The Barker Reviews brought about a major re-think in government policy towards housing, particularly relating to new build and the planning system. However, the heavy reliance on the private sector to provide additional housing has reduced the effectiveness of policy changes. In addition, the adoption by the government of “demand-side” housing policies has done little to negate the volatility of UK house prices or to raise the overall affordability of owner-occupied housing.

Originality/value – This paper reflects on government failures in UK housing policy in addressing the affordability of owner-occupied housing. The findings will be of interest to policy makers and housing researchers.

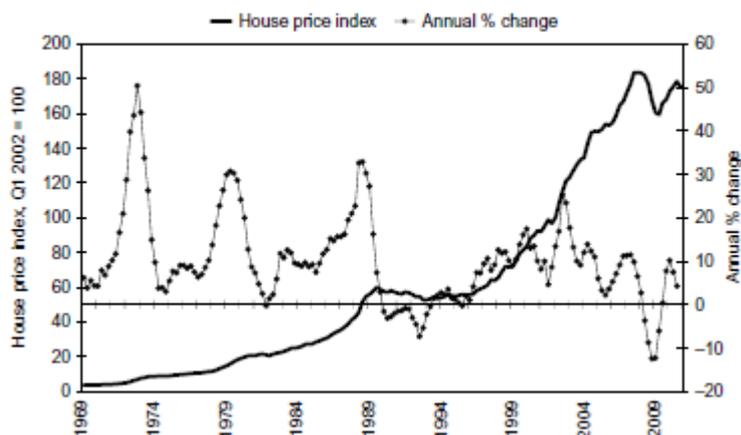
Keywords Affordability, Barker Review, Housing, United Kingdom

Paper type Research paper

1. Introduction

UK house prices have come to display two well-known characteristics. These can be seen in Figure 1. First, they have increased over the long term and have done so at a rate that not only exceeds the growth in consumer prices, but also the growth in household incomes. To put this into context, between 1969 and 2010 while nationally UK house prices grew by a factor of 47, consumer prices grew by a factor of 12, while the income of the household sector grew by a factor of 33. Because the long-term increase in the price of housing has been greater than that in the price of other goods, property has become more expensive relative to other goods. The high income elasticity of house prices has also meant that the levels of mortgage debt on household balance sheets have become larger relative to household incomes. This makes the UK household incomes more sensitive to changes in interest rates; fluctuations in repayment gearing are exacerbated by a predominance of variable mortgage rate products and the relatively short-term fix of “fixed” mortgage rate products.

Figure 1. House prices and annual rate of change



Source: Based on data from Table 594, Department of Communities and Local Government

Second, house price growth exhibits marked variability. Since the early 1970s national annual rates of house price inflation have ranged from over 50 per cent to as low as 21.5 per cent. Markedly varying rates of house price growth coupled with economic volatility invariably means that housing affordability conditions are subject to change. For instance, the robust rates of increase in house prices in the late 1990s caused particular issues relating to the ability of particular groups, including first-time buyers, to purchase housing. In other words, as well shall see in Section 2, this led to problems of attainability. However, concerns about households being able to continue meeting their monthly mortgage payments were partially mitigated by the impact of low interest rates. Therefore, given that conditions can change quite dramatically, as we again saw in the late 2000s, it is important that policy-makers are not continually seen changing the focus of housing policy. Rather, as we shall explore in this paper, short-term and long-term house price patterns are the result of a particular set of characteristics of housing demand and supply.

These two characteristics of UK house prices inevitably give rise to a series of questions about the affordability of owner-occupied housing including the contribution played by housing policy in affecting affordability. There is a lively academic debate as to what is meant by affordability in the context of owner-occupied housing and, consequently, how it should be measured (Abelson, 2009; CCHPR, 2009; Kutty, 2005; Stone, 2006). The purpose of this paper is not to directly enter this debate, but rather to analyse how UK housing policy has affected house prices and thereby aspects of housing affordability. In doing so, we recognise two closely connected generic dimensions of affordability: attainability and sustainability. In general terms, the former relates to the ability of households to purchase property, while the latter relates to their ability to financially sustain their purchase.

This paper focuses on housing policy from the early 2000s and its impact on the affordability of owner-occupied housing. This period is chosen because it coincides with what Bramley (2007) refers to as a “rediscovery” of housing supply as a policy issue. At the heart of this “rediscovery” were the influential Barker Reviews (Barker, 2004, 2006); these reports emphasised the need to both increase new housing supply and to make housing supply more sensitive to market conditions. Therefore, we reflect on the impact on affordability of the new Labour government’s supply-side initiatives, but also its simultaneous adoption of specific demand-side policies. Finally, we attempt to draw some conclusions on the direction of housing policy in the post-new Labour era. The approach for writing this paper follows the first Evaluation of English Housing Policy Since 1975 (ODPM, 2005), which is qualitative in nature. We will first state the objective of housing policies and their initiatives, then we will discuss the impact of these policies on housing affordability. We will also identify areas ripe for research as housing policy continues to evolve following the formation of the UK’s Coalition Government in May 2010.

The housing market consists of a series of sub-markets. Therefore, a significant amount of housing market research has focused on market segmentation and local market issues (Bramley and Leishman, 2005; Leishman, 2009; Meen and Andrew, 2004). A common method used in this research has been to develop econometric models or, more generally, to conduct a quantitative analysis. However, when conducting policy

research on housing markets, the tendency is to look at the national level because national policy is at the first hierarchy of any policies and local or regional policies are developed from it. This approach has been taken by previous major research on national housing policies including the Barker Reviews and ODPM-sponsored research on housing policy (Barker, 2004, 2006; ODPM, 2005).

2. UK house price and affordability patterns

There is considerable debate concerning how to define and therefore measure affordability. Owner-occupied housing affordability is a complex, multi-dimensional concept and, furthermore, these dimensions are inter-related. Widely used indicators of affordability, especially in policy circles, look at measures of house prices relative to income or earnings. One such measure is the ratio of lower quartile house prices to lower quartile earnings. This was used in the Barker Review (Barker, 2004, 2006). Barker argued one advantage of this method is that it enables the comparison of affordability across regions (Barker, 2004). This and other measure of house prices relative to income or earnings predominantly capture the attainability of housing, which is the ability of households to purchase property.

Stone (2006) advocates the UK adopting the residual income concept to measure housing affordability. He argues that it is a more accurate way to measure affordability because it identifies the amount of disposable income of households after paying off monthly mortgage. In essence, this measure captures the sustainability of housing investment, which is the ability of households to sustain their investment in housing. This can also be captured by measuring debt servicing costs relative to income or earnings, i.e. repayment gearing. In our brief overview of patterns in affordability, we look at general indicators of both attainability and sustainability.

2.1 Attainability

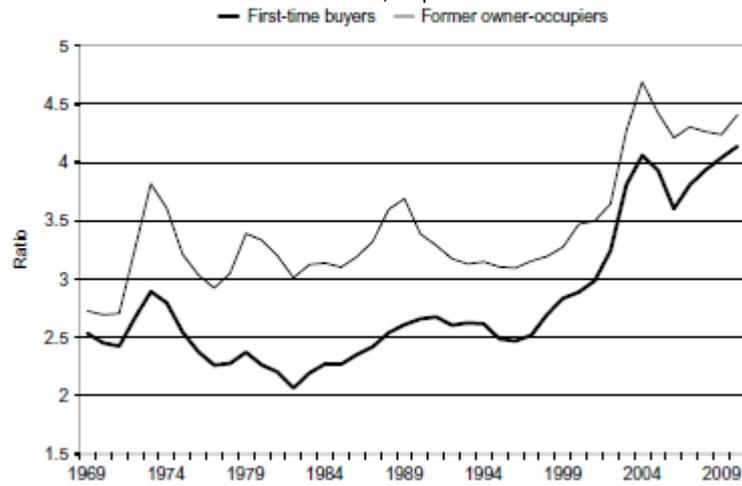
The magnitude of long-term house price growth has increasingly made affordability a major policy issue. One important reason for this is that the long-term growth in house prices has outstripped that in average incomes. Figure 2 shows the house price to income ratio across the UK for both first-time buyers and former owner-occupiers. The latter are largely owner-occupiers moving from one property to another. Both series use the average household income of borrowers in computing the ratio. The figure shows an increase in the ratio of house prices to income in the 2000s relative to that in previous decades. This general pattern is repeated across the countries of the UK and across the English regions. Additionally, the figure also shows significant variations in the house price to income ratio across relatively short periods of time.

We can gain further information on attainability by decomposing the house price to income ratio into its two component parts: the deposit to income ratio and the advance to income ratio. Tables I and II present averages for each decade since the 1970s for all buyers and first-time buyers in different parts of the UK. Table I reinforces the point that house prices relative to incomes reached historic highs during the 2000s. This is the case both at national and regional level. The typical UK house price to income ratio increased from 2.9 in the 1970s to 4.0 in 2000s. We also see that the deposit hurdle faced by buyers reached historic highs during the 2000s. This poses particular issues for first-time buyers who, by definition, have no housing equity of their own to use when purchasing property and, because they are typically younger, have built up relatively little net worth. Indeed, amongst first-time buyers the average deposit to income ratio doubled across the UK from 0.4 to 0.8 between the 1990s and the 2000s (Table II). However, not only did house buyers face a higher deposit hurdle but also the need for an increasingly large mortgage advance relative to their annual income. The advance to income ratio for all buyers increased from 1.9 in 1980s to 2.6 in 2000s. Finally, the tables demonstrate a clear regional segmentation for all buyers and first-time buyers. Buyers in southern English regions face both higher deposit hurdles and larger mortgages relative to annual income. For example, the deposit to income and advance to income ratios for South East buyers increased from 1.0 and 2.0 in the 1990s to 1.6 and 2.7 in the 2000s, respectively. On the other hand, for buyers in the North the same ratios increased from 0.7 and 1.9 to 1.1 and 2.3, respectively, over this period.

The attainability of housing for first-time buyers deteriorated further following the financial crisis of the late 2000s. According to Council for Mortgage Lenders (CML) (Anon, 2011), the typical deposit for first-time buyer houses rose from £12,700 at the start of 2007 to £31,500 by the second half of 2010. This meant that a typical first-time buyer needed to find the equivalent of more than a year's salary to be able to afford a deposit for a home. Unsurprisingly, the average age of the first-time buyer rose to 38 (Anon, 2010) as compared with around 30 in the mid-1980s and 34 in 2004 (Smith et al., 2005).

Figure 2. House price to income ratio

Source: Based on data from Table 515, Department of Communities and Local Government



	1970s		1980s		1990s		2000s	
	House price to income	Advance to income	House price to income	Advance to income	House price to income	Advance to income	House price to income	Advance to income
UK	2.9	1.0	2.8	0.9	3.0	0.8	4.0	1.4
Wales	2.6	0.8	2.5	0.8	2.7	0.7	3.6	1.2
Scotland	2.7	0.8	2.3	0.6	3.1	1.0	3.3	1.0
Northern Ireland	2.6	0.8	2.3	0.6	2.4	0.6	3.8	1.3
England	2.9	1.0	2.9	1.0	3.1	1.0	4.0	1.4
North	2.5	0.8	2.3	0.7	2.6	0.7	3.4	1.1
North West	2.6	0.8	2.5	0.8	2.8	0.7	3.5	1.1
Yorkshire and the Humber	2.5	0.8	2.5	0.7	2.8	0.7	3.6	1.1
East of England	2.7	0.8	2.6	0.8	2.8	0.8	3.7	1.2
Midlands	2.8	0.9	2.7	0.9	2.9	0.8	3.8	1.3
East Anglia	2.9	1.0	3.0	1.1	2.9	0.8	4.0	1.5
London	3.0	1.1	3.0	1.0	3.1	0.9	4.2	1.4
South East	3.2	1.2	3.3	1.2	3.2	1.0	4.4	1.6
South West	3.1	1.2	3.2	1.2	3.1	1.0	4.3	1.7

Source: Based on data from Table 515, Department of Communities and Local Government

Table I. House price, deposit and advance relative to income, all buyers

	1970s		1980s		1990s		2000s	
	House price to income	Deposit to income	House price to income	Deposit to income	House price to income	Deposit to income	House price to income	Deposit to income
UK	2.5	0.5	2.3	0.4	1.9	0.4	2.2	0.8
Wales	2.4	0.5	2.1	0.3	1.8	0.3	2.1	0.6
Scotland	2.4	0.5	2.0	0.3	1.7	0.3	1.8	0.6
Northern								
England	2.4	0.5	2.1	0.4	1.7	0.4	1.8	0.8
England	2.5	0.6	2.3	0.4	1.9	0.3	2.0	0.5
North	2.3	0.4	1.9	0.3	1.6	0.3	2.0	0.5
North West	2.3	0.4	2.1	0.3	1.7	0.3	2.1	0.5
Yorkshire and								
Humber	2.2	0.4	2.2	0.4	1.7	0.3	2.1	0.5
East								
Midlands	2.4	0.5	2.1	0.3	1.8	0.4	2.2	0.6
West								
Midlands	2.5	0.5	2.2	0.3	1.8	0.4	2.2	0.7
East Anglia	2.6	0.6	2.4	0.4	2.0	0.4	2.2	0.8
London	2.8	0.7	2.6	0.6	2.1	0.5	2.3	0.9
South East	2.7	0.6	2.5	0.5	2.1	0.4	2.3	0.9
South West	2.7	0.6	2.5	0.5	2.0	0.5	2.3	0.9

Source: Based on data from Table 515, Department of Communities and Local Government

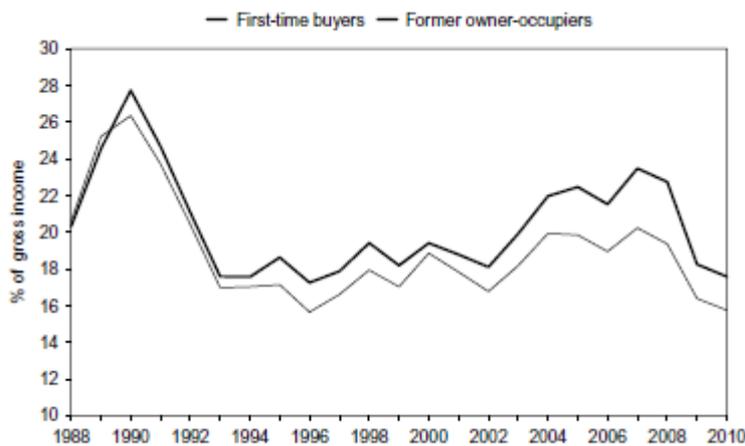
Table II. House price, deposit and advance relative to income, first-time buyers

2.2 Sustainability

One way of assessing the sustainability of house purchases is by measuring mortgage repayment gearing. In other words, we measure the proportion of income that households need to allocate to capital and interest payments. Figure 3 shows how repayment gearing eased during the 1990s for both first-time buyers and former owner-occupiers. However, rising income multiples during the 2000s off-set the effect of low interest rates, especially amongst first-time buyers, so that repayment gearing began to increase once more. For instance, mortgage repayment as a percentage of gross household income for first-time buyers rose between 2002 and 2007 from 18.8 to 22.7 per cent while that for former owner occupiers rose from 16.8 to 20.2 per cent.

Using figures from the Nationwide Building Society[1] on first-time buyer repayment gearing, we can further demonstrate the segmented nature of the UK housing market. The current authors calculate that across the 2000s the Nationwide's ratio of mortgage payments to post-tax incomes for first-time buyers is typically 1.8 times larger in London than in Scotland or the Northern region of England.

Figure 3. Mortgage repayments as a percentage of income



Source: Based on data from Table 539, Department of Communities and Local Government

3. Exploring the UK's affordability problem

The previous section briefly illustrated ways in which the UK's housing affordability problem manifests itself. These included, in particular, the long-term increase in house prices relative to consumer prices and to incomes, the volatility of house prices and both historically high deposit and advance to income ratios. But, what role has housing policy played in contributing to these problems?

3.1 New-build housing

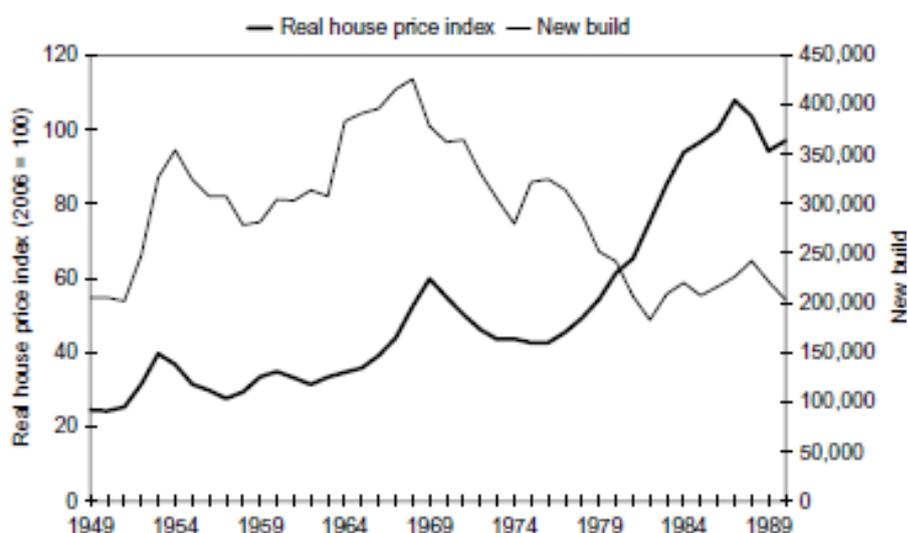
3.1.1 Land-use planning system. Bramley (2007) echoed the findings from Barker (2004, 2006) by identifying the operation of the land-use planning system as the most important factor explaining England's housing supply problem. Policies, procedures and incentives related to housing supply are all reasons why new housing supply is unresponsive to market conditions. In other words, they contribute to a highly price inelastic housing supply which drives up house prices and reduces affordability (Bramley et al., 2005; Bramley, 2007; Holmans et al., 2007; Evans, 1991, 2004). This results in particular issues of attainability when the rate of house price increases outstrips that of incomes unless mortgage provision increases sufficiently. Of course, should mortgage provision help to alleviate attainability pressures there then arises a problem of sustainability as households become increasingly leveraged.

Figure 4 helps to illustrate the scale of the new build problem facing the UK. It shows how since the 1970s the UK has experienced a systematic upward trend in real house prices, i.e. after eliminating consumer price inflation, but a systematic downward trend in levels of new build. The volume of new build fell from more than 400,000 per year in late 1960s to 200,000 houses per year in 1989: a reduction of more than 100 per cent. Such reductions in levels of new build have increasingly contributed to the increase in real house prices by accommodating less and less for the increase in housing demand caused by, amongst others, economic, social, demographic and migration patterns.

Unsurprisingly, there is a wealth of empirical work confirming the price inelasticity of UK new house build. According to Meen (2005), the supply for new houses in the UK is very price inelastic (less than 1.00) and more price inelastic than USA (approximately 3.00) and other European countries. He argues that the price elasticity of supply in the 1990s fell to such low levels, that it was essentially close to zero. An inelastic supply of housing when combined with an income elastic demand will result in both considerable price volatility and a long-term increase in prices. In the UK, the variability of demand is further compounded by its interest rate sensitivity. This has the potential to create a series of macro-economic problems (Barker, 2003). One example of this is that spatial variations in house price patterns, as demonstrated by Tables I and II, caused by market segmentation (Bramley, 2007), can affect the mobility of labour in responding to wage differentials. The two fundamental characteristics of UK house prices, i.e. long-term growth and short-term volatility, are best appreciated when set in the context of the dynamics of housing demand and, crucially, new house build numbers and the operation of the UK planning system. In some senses, policy-makers face difficult choices. Understandably the planning system is a means to protect the countryside and greenbelt. In other words, it limits the amount of land available for house buildings. But, this helps to drive up house prices (Breheny and Hall, 1996; Cullingworth and Nadin, 2002; Holmans et al., 2007; Monk and Whitehead, 1999) and, as Figure 1 also shows, induce significant volatility in house prices.

Figure 4. Real house price index and levels of new build

Source: Source: Based on data from Tables 241, 502 and 593 from Department of Communities and Local Government; nominal house price deflated by consumer expenditure deflator from UK Economic Accounts, National Statistics



for house-building through increased emphasis on using brownfield land to support urban regeneration goals (Adams and Watkins, 2002; DETR, 1999). The UK has therefore operated a policy based on the forward planning for housing based on projected household numbers. However, while attempting to allocate enough land to accommodate these numbers on a rationed basis it has often done so without much margin for flexibility. Furthermore, the planning procedures for a change in the use of brownfield land to development can be really long limiting the extent to which the use of brownfield can be the solution to the problem on UK housing supply. A significant body of literature concludes that British planning control, by containing urban extensions, tends to increase house prices and land values (Cheshire and Sheppard, 1989, 1997; Evans, 1991; Monk et al., 1996).

Bramley (2007) observes that the fiscal measures implemented by the local authorities can contribute to levels of new build being unresponsive to market conditions.

For instance, local authorities have on occasions sought contributions from large-scale new developments towards infrastructure provision, affordable housing and other community facilities. It is argued that this can generate major delays in planning permission being granted which, in turn, makes housing supply less responsive to price signals, so driving house prices upwards and causing them to be volatile.

3.1.2 House-building industry.

Another potential factor influencing the supply of the UK housing has been the consolidation of the house-building industry. Blake et al. (2004) argue that the sector demonstrates characteristics of any oligopoly which could potentially limit supply responsiveness. However, we tend to concur with Bramley (2007) who concludes that the house-building industry “remains pretty competitive” and where local markets are less competitive this naturally tend to reflect local planning constraints. Some geographical locations may have a less competitive house-building industry because of local conditions which could, for instance, inhibit the availability of land, or affect the type of development. In other words, some local markets may not be capable of supporting a large number of house-builders which causes a “natural oligopoly” in some local markets.

3.2 Mortgage and interest rate

It is not just housing policies that have affected affordability, but also financial deregulation and financial innovation. Stephens (2007) argues that mortgage market deregulation has created affordability issues. In particular, while it has enabled greater access to home ownership it has often meant “risky homeownership”. This is consistent with the findings from research conducted by Scanlon et al. (2008). They argue that the availability of longer terms annuity mortgages and interest-free payments can be more risky for borrowers. Changes in interest rates have a major impact on affordability and, in particular sustainability, in the UK. One of the reasons for this is the scale of mortgage debt in the UK: the ratio of mortgage debt to GDP doubled between the late 1980s and the late 2000s. In 2009, mortgage debt as a percentage of GDP was 88 per cent in the UK while the average across the 27 Member States of the European Union was 52 per cent (EMF,

2009). Therefore, other things being equal, any change in interest rates will have a more substantial effect on mortgage payments on most UK households than in most other countries (Meen, 2005). However, the impact on mortgage repayment gearing is also significant in the UK because of the high propensity for households to have variable interest rate mortgages. In other words, any slight change in the interest rate will have a large impact on households' monthly mortgage payments. This is readily put into context when one notes that across the 1990s and 2000s the average first-time household typically had to devote one-fifth of their salary servicing the mortgage. Any increase in interest rates has the potential to put severe strains on household finances.

4. UK Government housing policy

Bramley (2007) observes how from 1975 to 2000, the nature of housing policy radically changed. During this period, new build took something of a "back-seat" (Figure 4) and ceased, at least amongst policy-makers, to be the "hot" topic that it had been in the post-war period. However, from the early 2000s onwards, in response to the increase in house prices and worsening affordability, especially attainability, housing supply once again became an important issue for politicians. It is for this reason that Bramley (2007) refers to the "rediscovery" of housing supply.

Over the past decade UK housing policy has reawakened: the UK Government has implemented a range of housing policies to improve the affordability of housing. The core housing policies have focused on the supply-side. These have attempted to increase housing supply and change the planning system. Other policies have focused on mitigating attainability issues by impacting on housing demand. These have included policies to help first-time buyers and "key workers" to get on the property ladder. These policies aimed to serve the key housing policy goal of the Labour government from 1997 to 2010. The goal, as stated in Planning Policy Statement 3 (PPS 3) Department for Communities and Local Government (DCLG, 2006) was to "ensure that everyone has the opportunity of living in a decent home, which they can afford, in a community where they want to live" (p. 6). In terms of affordability, the objective was "to improve affordability across the housing market, including by increasing the supply of housing". The rest of this section will focus on those housing policies aimed at affecting housing affordability. Please see Table III for a summary of UK major housing policies since 2000s.

4.1 Housing supply policies

The "bread and butter" of the "new" philosophy of housing policy during the 2000s was about enhancing supply. The first major UK housing policy document in the early part of the decade was "Sustainable Communities: Building for the Future" (ODPM, 2003). The aim of this policy was to tackle geographical differences in the affordability of housing. It also aimed to speed-up new housing supply by streamlining the planning system (Barker, 2006). These objectives were to be carried out by private developers without public subsidy. The hope was that new housing supply could be made more responsive to prices in order to make house prices less volatile.

The major house policy document in the 2000s was the Barker Review (2004). This review was set up by the Chancellor and Deputy Prime Minister on 9 April 2003 under a background of deteriorating housing affordability. The review set out a series of policy recommendations to address the lack of new supply and the responsiveness of this

Table III. Summary of UK major housing policies since 2000

Housing Supply Policies	Sustainable Communities: Building for the Future (ODPM, 2003) Review of Housing Supply. Delivering Stability: Securing our Future Housing Needs. Final Report - Recommendations (Barker, 2004) PPS 3: Housing (DCLG, 2006) Barker Review of Land Use Planning. Final Report - Recommendations (Barker, 2006) Homes for the Future More Affordable, More sustainable (DCLG, 2007)
Housing Demand Policies	Starter Home Initiative Shared Equity and Shared Ownership
Housing policies announced by the Coalition Government in 2010	Draft Structural Reform Plan (DCLG, 2010a) Building the Big Society (Cabinet Office, 2010)

supply to prices. The hope was not only to reduce the systematic upward trend in house prices, but also to reduce the volatility of house prices. This review recommended a stronger role for regional planning bodies, with an independent regional planning executive charged with setting out advice on market affordability

targets and housing numbers. It also proposed alternative routes to gaining planning permission aiming to enhance the speed for building houses at the local level. The Barker Review recommended both a “stick” and a “carrot” approach’ to encourage housing supply.

Planning Policy Statement (PPS) 3: housing (DCLG, 2006) was developed in response to recommendations in the Barker Review of housing supply published in 2004. It aimed to provide a step-change in housing delivery through a new and more responsive approach to land supply at the local level. This PPS reflected the government’s commitment to improving the affordability and supply of housing in all communities. Their intentions were nicely captured by one of their housing policy objectives which referred to the need for “a flexible, responsive supply of land – managed in a way that makes efficient and effective use of land, including re-use of previously-developed land, where appropriate” (DCLG, 2006, p. 6).

Barker (2006) conducted a follow-up review and again recommended changes to the planning system to improve the speed of new housing supply and to reduce house price volatility. The key recommendations from this report addressed the objective of reducing the time taken over planning decisions. It was recommended that future development planning documents should be delivered in 18-24 months and that from 2008 to 2009 any appeal should be completed in six months.

The Housing Green Paper (DCLG, 2007) was the Labour government’s key housing strategic policy document in the 2000s. It contained “tangible” housing supply targets which aimed to meet increasing housing demand and address affordability issues. These housing supply targets included setting new targets of 240,000 additional homes a year by 2016 and delivering 2 million homes by 2016 and 3 million homes by 2020. The approach for achieving this objective was to be through the use of better planning at both regional and local levels. Regional spatial strategies were expected to have been carried out by 2011 in order to reflect plans for 240,000 homes a year by 2016. A “carrot” approach was adopted to enhance local planning incentives. This saw the introduction of a new Housing and Planning Delivery Grant to direct extra resources to councils which delivered high levels of housing and identified at least five years’ worth of sites ready for development.

The Barker-led initiatives were designed to tackle a perceived allocative market failure: too few resources devoted to new housing supply. Naturally, these initiatives were not without criticism. The traditional planning approach in the UK attempts to relate housing construction to the expected future number of households. Meen and Andrew (2008) argue this may not necessarily ease affordability concerns because it does not take into account the segmentation of market by location. Similarly, Bramley and Leishman (2005) argue that policy needs to take into consideration the demands or needs of different types of housing in different locations. The Barker-led changes to housing policy relied very heavily on the private sector to produce the additional housing that was felt necessary. The UK was therefore relying on a sector whose economic activity is notoriously volatile. The financial crisis was perhaps an extreme shock, but it, nonetheless, helped to demonstrate the potential pitfalls of the UK Government’s housing strategy. That is not to say that this was the only problem with the reforms and the implementation of the Barker Reviews (Barker, 2004, 2006). Perhaps understandably planning policy guidance advocated high density building and mixed developments. It was advised that future housing development should have a minimum of 30 dwellings per hectare (PPS 3: housing, DCLG, 2006). This statement also proposed mixed communities, with a variety of housing, particularly in terms of tenure and price, as well as a mix of different households, such as families with children, single person households and older people (DCLG, 2006). However, it is questionable as to whether this could have contributed to alleviating the main sources of the pressures on demand. If housing is highly income elastic then an over-saturation of apartment building, while well-intentioned, is unlikely to alleviate demand-side pressures.

In our view, the Barker Reviews (Barker, 2004, 2006) made an important contribution to tackling housing affordability issues by recognising the significance of understanding the interaction of housing demand and supply in determining house price patterns. Rather than looking for kneejerk housing policy responses or for “sticking plasters” so that policy-makers could be seen to be dealing with the affordability issues of the day the Barker Reviews looked for the underlying drivers of UK housing affordability issues. This led them to analyse the factors giving rise to the fundamental characteristics of UK house prices. Consequently, it led to a focus on the supply-side and to recommendations for initiatives to affect the volume and responsiveness of new housing supply to market conditions. Barker suggested imposing taxes on activities which discourage housing supply and “simplifying” the planning procedure.

The main focus of Barker’s (2004, 2006) recommendations was to impact on housing supply in order to alleviate affordability problems. In our view, the criticisms raised by Bramley and Leishman (2005) and Meen and Andrew (2008) that the Barker Review (Barker, 2004) ignored market segmentation are over-emphasised. This is not to argue, however, that there was no room for more decentralisation of housing policy.

Barker Reviews (Barker, 2004, 2006) advocated regional planning executives to advise regional planning boards on housing targets which showed local needs were well aware of.

In the 2004 report, Barker also acknowledged that demand-side movements are important drivers of short-run house price movements but argues that supply-side reforms, while unable to totally eliminate house price fluctuations, would certainly reduce them. At first this might seem to the layperson a strange stance. But demand-side actions can be counter-productive in the medium to longer term. That is not to say that all demand-side initiatives are doomed to failure but that they need to be thought through carefully.

4.2 Housing demand policies

Though the core of housing policy from the early 2000s focused on the supply-side, the government also introduced a series of demand-side initiatives. As we saw earlier, the UK housing market is segmented and affordability issues vary between regions. An issue that developed over the course of the new Labour government was the access of so-called “key workers”, such as teachers to local housing markets, especially in southern Britain. In one sense, this was a case where concerns about fairness, i.e. the ability of certain groups to access certain markets, were reinforced by concerns about the economic costs from skills’ shortages, such as those in London (Meen and Andrew, 2004).

This was to be an important theme in the Barker Review (2006) report which argued the wider-economic case for reforms to the planning system. Nonetheless, the government felt it needed to intervene on the demand-side to provide subsidies to those groups of buyers who were being excluded from certain market segments. The forerunner of the key worker home ownership initiative was the starter home initiative. It ran from 2001-2002 to 2003-2004 and was expected to help 10,000 key workers into home ownership. However, the actual number assisted fell far short of this. Steele and Todd (2004) argue that this was partly attributable to rising high prices, low loan levels and the reluctance of some individuals to purchase a home under a shared ownership arrangement.

The other major housing demand initiatives were shared equity and shared ownership. Shared equity is a form of affordable housing to help certain people to get on the property ladder. HomeBuy Direct was to be the main shared equity scheme. Under this scheme, house buyers purchase the whole new-built property but with an equity share loan making up the difference between the mortgage and purchase price. In other words, this shared equity loan, to a large extent, is the deposit of the house buyer. On the other hand, shared ownership schemes are usually undertaken whereby house buyers only own a specific share as a lease on a shared ownership property (normally owned by a Housing Associations). House buyers only achieve 100 per cent ownership by “staircasing” up from shares (of minimum 25 per cent) to full ownership. The Housing Green Paper (DCLG, 2007) outlined plans for over 25,000 shared equity and shared ownership homes a year focusing on helping key workers and others who could not afford to buy near to their workplaces. In addition, thousands more shared ownership homes were to be built through local housing companies and public sector land to deliver additional shared ownership homes without providing grants to potential home buyers. Once significant concern about the government’s demand-side initiatives, such as HomeBuy Direct is the possibility of capitalisation. In other words, for those schemes not involving new build, subsidies or grants simply get incorporated into higher house prices. This occurs because the initiatives help increase the number of potential buyers, stoke up housing demand and, in turn, house prices. This problem is more acute when, as in the UK, housing supply is less responsive to price. Consequently, the policy would actually be counter-productive in the longer-term since it is not actually dealing with the cause of the problem which lies on the supply-side.

In other countries, such as Australia, where housing affordability is an issue there have also been government interventions to help first-time buyers get on property ladder. Since 2000, the Australian Government has offered First Home Owner Grant (FHOG, 2000) to first-time buyers. In 2000, a first time home buyer was able to receive a one-off payment of AUS\$7,000. In October 2008, the Australian Government announced a boost to the scheme to alleviate the global financial crisis, in order to stimulate the housing industry and increase home affordability. The stimulus consisted of an extra AUS\$14,000 available to first home owners buying or building a new home, as well as an extra AUS\$7,000 made available for existing homes. Some argue that affordability in the UK may be improved if the UK Government offered a similar kind of support to UK first-time buyers. However, there are real concerns about the effectiveness of this and other similar demand-side initiatives, such as HomeBuy Direct (see the paragraph above).

These types of subsidies policy can work more successfully in countries such as Australia and USA where they do not have such supply-side constraints. They can accommodate demand pressures with more supply so capitalisation is less of an issue there. However, it is a different story in the UK, which is a small and densely populated island, with, as we have noted, a price inelastic supply. Even with reforms to planning policy to make UK housing supply more sensitive to market conditions, one would still expect a significant degree of

capitalisation. Ironically, the real gainers would be existing home owners because as prices rise they experience a capital gain.

4.3 Housing policies announced by the Coalition Government in 2010

The general election of 2010 brought an end to 13 years of Labour government. It was also to mark something of a shift in housing policy: a post-Barker era. The first signs of a change came when the DCLG presented its Draft Structural Reform Plan in July 2010 (DCLG, 2010a). This plan aims to promote the new Coalition Government's Big Society idea (Cabinet Office, 2010) and to implement the principle of localism. In promoting localism, the Coalition Government abolished housing targets. This was implemented as part of the Localism Bill.

As part of the government's drive to create the Big Society, the government has been shifting control over house building from the central government to local authorities. It includes giving neighbourhoods more ability to determine the shape of the places they inhabit and abolishing regional spatial strategies and returning decision-making powers on housing and planning to local councils (Cabinet Office, 2010). In other words, it has abandoned the authority of regional government over housing supply. The key "localism" policy for housing supply is the "Community Right to Build". Hence, communities are to take greater control over plans for new build that affect them. This right also allows community organisations to go ahead with development without application of planning permission, provided that the proposed development received overwhelming community support and meet the government's minimum criteria (DCLG, 2010b).

The Coalition Government has decided to replace the housing targets with financial incentives: a "carrot" to encourage new build. The New Homes Bonus is designed to match financially the additional council tax collected by local council from new homes in their area. This would continue for six years for each new home or any property brought back into use (DCLG, 2010a).

The new UK Coalition Government's localism philosophy is very appealing. The key question though is whether it can deliver housing policies to tackle the affordability issues. It remains to be seen whether the new philosophy will deliver large levels of new build. Some will question whether successfully tackling the array of affordability issues can be done without taking a holistic view of the planning system and of our housing needs. For this reason some will be concerned that the abandonment of the powers of the Regional Planning Boards will mean an inconsistent and unstructured planning approach across the UK.

5. Conclusions

The long-term increase in real house prices, as well as their considerable volatility, should come as no surprise given the dynamics of UK housing demand and supply.

The influential Barker Review (2004) applied simple economic ideas and techniques to produce a powerful voice for change in housing policy. In essence, it concluded that the patterns we observe in UK house prices are an inevitable outcome of demand pressures, arising from demographic, geographic, social and economic change, combined with low levels of new build and a fairly time-consuming planning process. In other words, the Barker report identified the need for housing supply to accommodate demand pressures both in the short-term and in the longer-term.

UK housing policies from the early 2000s were largely Barker-focused, and as a result, concerned with creating new houses and reforming the planning system in order to tackle affordability issues in the owner-occupied sector. These policies relied heavily on the private sector to deliver. The financial crisis was to deal a heavy blow to the sector's ability to deliver. Notwithstanding this, it is easy to forget that most housing supply comes from the "existing" housing stocks. Meen and Andrew (2008) observe how "new housing" can be increased not only by new build, but also by conversions and renovations of the existing stock. Furthermore, they estimated that in 2003 approximately 3.5 per cent of the private housing stock lay vacant, of which 1.8 per cent had been vacant for more than six months.

It is our belief that a major omission from housing policy pre- and post-Barker Review has been a dialogue about how we manage and modernise our existing housing stock. New build cannot be the total solution for improving housing affordability. Most housing transactions involve the existing stock. The housing market is predominantly a second-hand market. Based on transactions and new build data from Department of Communities and Local Government, the average ratio of private new build to transactions in 2006-2009 was 13 per cent. In other words, 87 per cent of housing transactions involve existing houses. However, there appears to be little or no conversation about how we can make the housing stock better meet the demands of households and so alleviate some of the pressure on the need for newbuild. In a segmented market this is especially important. We believe that this conversation needs to start sooner rather than later.

Following on from the evaluation of housing policy in this paper, there are two suggested areas for future research. The first suggested area is policy development. As we have just said, existing housing is the major supply of houses and the majority of housing transactions occur in this sub-sector. Therefore, it is important

for policy-makers to investigate the use of the existing housing stock to alleviate affordability problems. Policy developments relating to the existing housing stock could also potentially solve the problem of market segmentation. As mentioned in Section 2.1, the UK housing market is highly segmented, largely along geographic lines, for example, the property prices in London and South-east England are substantially higher than the national average. New build alone cannot solve this problem because there is limited land to build new houses in some parts of the UK. However, facilitating transactions in the second-hand market in the longer-term can play a significant role in responding to the UK's housing affordability problems. The second suggested future research area is on policy evaluation. The Coalition Government has announced a very novel approach to solving housing affordability problem, which is to give more powers to local communities. However, as mentioned in Section 4.3, the lack of a central overview on housing supply and planning may result in an inconsistent and unstructured approach across the UK. Therefore, it is essential to conduct comprehensive research to evaluate whether this and other potential policies can achieve their aim of enhancing housing affordability. More generally, UK housing policy has often been characterised by sudden shifts of emphasis and by inconsistencies and contradictions. Hopefully, a re-energised and evaluative approach to policy will help to lessen this.

Note

1. Nationwide Building Society data is available at: www.nationwide.co.uk/hpi/historical.htm

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