

Tullett Prebon Research, a blog by Dr Tim Morgan

Betting the house

by Tim Morgan on August 24, 2012

The way in which housing is becoming the new hot ticket amongst policymakers and commentators is surely indicative of quite how few policy viable options exist for fixing a deteriorating economy and a worsening fiscal balance. I little thought, when I started work on my [new report](#), published today, that I would be contributing to quite such a crescendo of comment.

What I hope my report contributes is a fresh viewpoint which escapes from the national myopia about all things property. Lewis Carroll's White Queen always made a point of believing "six impossible things before breakfast". Where housing is concerned, we in Britain manage to believe a lot more than six impossible things, most of the time.

For a start, we tend to believe that high property prices are "a good thing". This, assessed objectively, is simply nonsense. In economic terms, high house prices act as a sink for enormous amounts of capital which could otherwise have been put to productive purposes. Rising house prices may boost demand, but this is purely temporary, whereas the extra debt which always accompanies property bubbles is all too damagingly permanent.

Socially, of course, soaring property prices have blighted the lives of millions of young people. The older generation seems to think that the release of housing equity will fund a comfortable retirement – but who do they imagine they're going to be selling their houses *to*? Martians? Well, it certainly won't be to a younger generation which cannot afford current inflated prices. The property price correction has a long, long way further to go yet.

There has also been a long-standing British obsession with home "ownership", which in the vast majority of cases isn't really "ownership" at all, of course, but a long-term leveraged lease. In contrast Germany manages perfectly well without allowing this ownership obsession to divert investment into capital sinks. Of course, German tenants benefit from protections which we have spent the last three decades stripping away.

If you think that the policy bias which has long favoured private renting over social housing has worked, ask the (mostly young) tenants who are paying record rents for what many describe as the "limbo" of insecurity in which they find themselves.

"Owning" houses, and running ourselves ever further into debt in order to inflate the purely notional value of our housing stock, is bad economics. But **building** houses can make a lot more sense, not least because the bulk of any such investment would be spent at home.

Some observers want to free up property developers, but that's not my preference at all. That would simply feed the national obsession with "ownership".

Rather, I put a great deal of faith in builders – but not developers – as an economic regenerative force. My report argues that government should fund the building, by housing associations and/or local authorities, of new social housing for rent.

I hope that we'll get this, though I very much fear that we'll be fobbed off with yet more PFI-type gimmicks – or that NIMBYs will use our arthritic planning system to stymie the building of new social housing.