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## Houses and prices

### Whose backyard is it anyway?

Britain's various home-ownership manias serve the next generation ill

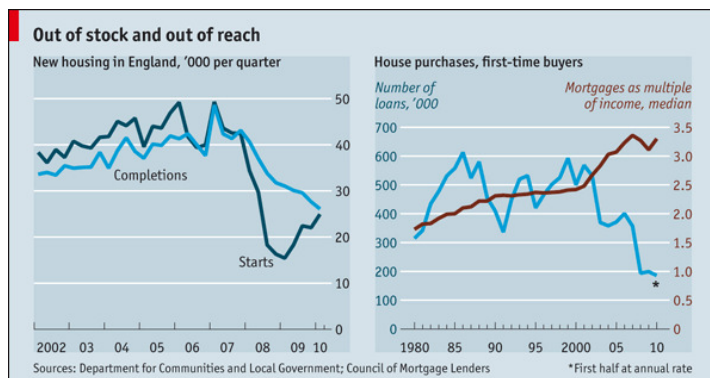
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NOT many people have heard of SNUB. Why should they have? Yet Stop Norwich Urbanisation, a group that fights "creeping" expansion, has recently redoubled its efforts to halt the construction of 4,000 new homes on prime agricultural land at Rackheath, to the city's north-east. Although Broadland District Council, along with three adjacent boroughs, says it supports the new "eco-town" and is going ahead with a 200-house first wave, Snub insists that it must now take far more account of local objections.

The group has gained fresh impetus from the new coalition government's abolition of the Regional Spatial Strategies (RSS), which in Labour days allowed centrally determined targets for new housing to prevail over local opposition. The plan is to devolve this task to local authorities, which are bound to take more account of local feelings. "A recipe for nimbysism," says Michael Oxley, a housing expert at De Montfort University in Leicester.

Cala Homes, a house-building company based in Edinburgh, objects so strongly to the political volte-face that it is pressing for a judicial review. Its lawyers claim that revoking the regional strategies without putting in place a clear transition process is "unlawful". For its part the government intends to come up with a new system that will tempt local councils into building lots of houses by offering them financial incentives, after a consultation that is likely to last well into next year. Others in the housing business talk of a "policy vacuum" meanwhile, which could restrain housing starts just as they are picking up again (see chart).



Housing in Britain is a hot issue. For all the economic gloom, prices are still so high that ever fewer young people can afford to buy a first home. As the chart shows, those who do are taking out mortgages that represent an increasing multiple of their income—and that is after coming up with a bigger down payment.

Paradoxically, many parents of would-be buyers are vehemently opposed to new housing developments in their own backyard, "without seeing the disconnect", notes a planning expert. But Mr Oxley thinks the volume of new housing is only one factor affecting the real issue, which is affordability, or rather the lack of it.

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Average house prices in Britain did not correct themselves by as much as America's after the credit crunch, despite a similar housing bubble fuelled by cheap loans. They dipped by just over 20% from peak to trough, on figures from the Nationwide building society, before resuming their upward journey; America's fell by 32%, according to the Case-Shiller 20-city index. A slight check in Britain in July may be little more than a seasonal correction. Estate agents are nervous, but few expect the dynamics of the housing market to change dramatically.

Britons seem to have an abiding faith in the existence of an implicit floor under house prices. True, there are obvious constraints on the supply of housing caused by high land prices and planning red tape. Then too the aspiration to own a home—preferably a house, not a flat—is widespread, thanks in part to the perception that property is a one-way bet. And until recently banks have been all too ready to lend on it. None of these elements alone explains why British houses are overpriced by around 30%, according to *The Economist's* index of house prices to rents, but they are all part of the mix.

Jeremy Grantham of GMO, an American investment-management firm, sees the prevalence of floating-rate, rather than fixed-rate, mortgages as a common factor sustaining "100-year" housing bubbles in Australia and Britain. Floating-rate mortgages last year reduced many borrowers' payment burden as the Bank of England dropped its base rate to 0.5% and lenders adjusted their standard variable rates downward in response. Borrowers who might have thrown in the towel on a fixed-rate mortgage were able to keep up monthly payments at that lower level. (In America, by contrast, thousands of borrowers were hit by fixed-rate, low-interest "teaser" mortgages which reset to a higher rate after a year or so.)

But first-time buyers are not benefiting from these lower interest rates. Banks' lending criteria have tightened. A few years ago a new buyer could get a loan by putting down just 10% of a house's value; today he must come up with something closer to 25%. Higher-than-usual unemployment and erratic wage growth make it hard to find that kind of money. And in any case the ultra-low central-bank base rate will eventually have to rise, pushing up borrowing costs. It will then be even more difficult to get into the market.

Falling house prices are anathema in the eyes of the average Briton, or so it seems. On August 11th Savills, an estate agency, published its revised forecast for house prices until 2015: a drop in 2010 and 2011 was illustrated by rainclouds, whereas the 7% growth predicted for 2013 and 2014 basked in sunshine. And indeed when house prices sag consumers tend to lose confidence, which affects growth and jobs.

But with first-time buyers locked out in this way, the idea that business as usual in the housing market is desirable looks flawed. If more young people are to join the ranks of home-owners, house prices and related mortgages need to fall. The insistence on buying a house to live in, however, may in fact be misguided. In no other European country is home-ownership such an obsession. Yet according to a 2006 study British homes are on average smaller than those in Germany, France or the Netherlands, for example, and the difference has been widening.

More Britons might be more comfortable, both financially and domestically, if they could be persuaded to ditch their home-owning aspirations, and perhaps their nimbyism too. In 18th-century England even the rich were happy to live in rented accommodation. Now, for no very good reason, that has come to be seen as second-best.

Britain

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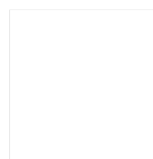
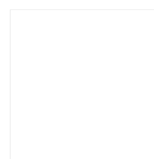
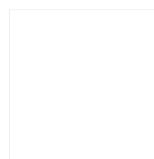
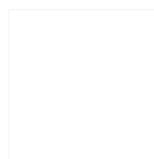
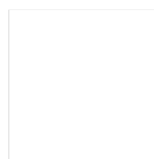
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