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Three cheers for cheaper houses

More should be done to increase housing supply

Common sense suggests it is a good thing when basic amenities become more affordable and a concern if they are priced out of reach. Not so in housing. Rising real estate prices are cheered even when they mean the young have to spend more of their life at work in order to acquire a home. This week's news of slipping UK house prices was greeted with dismay.

The softening housing market – the Royal Institution of Chartered Surveyors has reported its first negative reading in a year – may well be a symptom of wider malaise in the economy. But the case is far from clear-cut. The second quarter's outstanding growth rate and record export spurt suggest the economy may be doing just fine. House price weakness may have more to do with banks tightening mortgage terms and a rush to sell before the higher capital gains tax rate takes effect.

Even if the house price slide does mean the recovery is petering out, it is surely insane not to greet it as good news in its own right. The UK is hardly blessed with an excess of homes. It has suffered a noxious mix of gushing mortgage credit and a straitjacket of planning constraints. The resulting price boom put home ownership out of reach for a growing share of the population. In 2008, the median

house in England cost seven times the median annual income, nearly double the ratio a decade earlier.

Price falls are good. More houses are needed. Grant Shapps, housing minister, recognises this. He wants to encourage councils to allow development by reallocating some of their funding from Westminster to match council tax raised on new houses. This is not by itself a bad idea. The opposition's objection – that it will leave less money for councils deciding not to build – misses the point that incentives work precisely because they reward those who respond to them and penalise those who do not.

But the bonus scheme does not do enough. It smacks of bribing councils not to use the beefed-up powers to veto development the government gave them by scrapping Labour's housing policy. What if councils think new developments hurt their constituents' house prices more than extra government money makes up for?

The government is right to support local decision-making, but it must do more to make localism work. Councils need greater tax-raising powers to reap the benefits of development. And the government should say what it will do if homeowners prefer to use local power to kick the housing ladder away under them.