



How can we fix the housing crisis?

Housing has become too expensive and it's time we did something about it! But is it really that expensive in Scotland?

Prices have gone up dramatically:

House prices in the UK have increased by a factor of nearly forty over the last forty years (100 = 1971-level) ¹ :		For Scotland, the prices have increased "only" over thirty times:		The prices in general have increased a measly 11 times: ²	
1971	100	1971	100	1971	100
1981	472	1981	453	1981	369
1991	1263	1991	1041	1991	658
2001	2135	2001	1443	2001	855
2011	3879	2011	3206	2011	1160

Houses are unaffordable:

More useful than house prices are measures of housing affordability, such as the '**Median Multiple**' (MM). This is the ratio of median house prices to median annual gross income, i.e. how many annual gross salaries a family in the middle of the income range requires to purchase a house in the middle of the price range. As a historical longer-term average, MMs in developed English-speaking countries have clustered just below a value of 3.0. A family on average incomes could thus afford an average-priced house with three gross annual salaries. Demographia takes this 3.0 value as the critical threshold, and classifies housing markets with a MM at or below this level as 'affordable'. Of the 33 UK regions included, not a single one counts as affordable according to this definition, and perhaps more worryingly, not a single one comes even close.

Median Multiple ³	Markets corresponding to urban areas over 150,000 population and London Exurbs
3.0 – 3.9	Falkirk , Leeds & West Yorkshire
4.0 – 4.9	Aberdeen , Belfast, Birmingham & West Midlands, Blackpool & Lancashire, Derby & Derbyshire, Dundee , Edinburgh , Glasgow , Hull & Humber, Manchester & Greater Manchester, Middlesbrough & Durham, Newcastle & Tyneside, Newport, Nottingham & Nottinghamshire, Perth , Sheffield & South Yorkshire, Stoke on Trent & Staffordshire, Swansea
5.0 – 5.9	Cardiff, Leicester & Leicestershire, Liverpool & Merseyside, Northampton & Northamptonshire, Telford & Shropshire, Warrington & Cheshire, Warwickshire
6.0 – 6.9	Bristol-Bath, Swindon & Wiltshire
> 7.0	Bournemouth & Dorset, London (Greater London Authority), London Exurbs (E & SE England), Plymouth & Devon

¹ Department for Communities and Local Government (2012), Table 590: Mix-adjusted house price index, by region, from Q2 1968 (quarterly) and from 2002 (monthly): <https://www.gov.uk/government/statistical-data-sets/live-tables-on-housing-market-and-house-prices>

² Bank of England, Inflation calculator, 2018 <https://www.bankofengland.co.uk/monetary-policy/inflation>

³ Demographia 2017 – The 13th Annual Demographia International Housing Affordability Survey <http://www.demographia.com/dhi.pdf> Median house prices are calculated from the Land Registry of England and Wales, the Registers of Scotland and Northern Ireland Residential Property Price Index.

What can you buy here and what can you buy elsewhere?

The accounting company Deloitte explored the question in a different way: what kind of a new dwelling can someone afford in Europe for 200,000 Euros?⁴

In European countries as a whole the average size of a new dwelling was 114 sq m, whereas in the largest cities it was only 89 sq m.

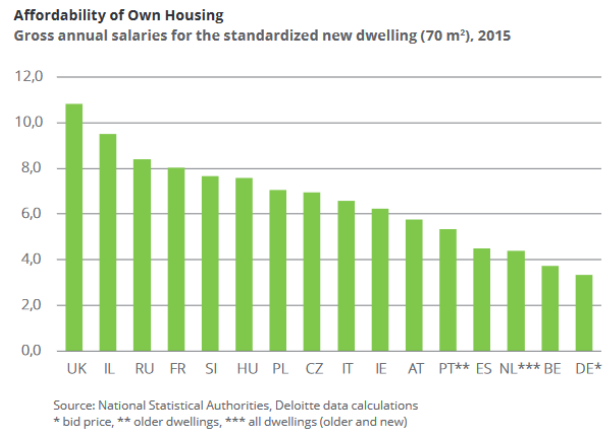
The Netherlands (97sqm), Germany (97sqm) and Belgium (94sqm) have dwellings whose size is slightly below the European average. Normally a 4-room apartment is available for this price in these countries. France is second worst with 50sqm - and the UK is at the very bottom with 39 square meters.

How many average gross annual salaries would it take to buy a standardised new dwelling (70 sq m)?

The most affordable housing can be found in Germany, where a person would need on average to save only 3.3 years to buy a new dwelling. Germany is closely followed by its neighbours – Belgium and Netherlands.

Relatively affordable housing can be found in Spain, Portugal and Austria.

The least affordable own housing is in the United Kingdom where citizens would need to save almost 11 years to buy a new apartment. This is buying outright, without a mortgage or anybody lending you money.

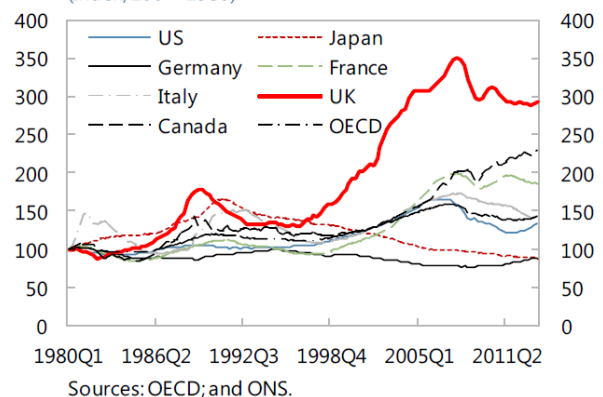


But it's not all because of the economic crisis

House price increases in the UK stand out among the OECD economies. Over the past 30 years, real house prices have increased the most in the UK when compared with other OECD economies. Indeed, over this period, annual house price increases have averaged 3 percent in real terms, compared with 1 percent for the OECD as a whole. This divergence in house price increases was particularly pronounced from the mid-1990s through the global financial crisis in the late 2000s. Furthermore, house prices in the UK have also been a lot more volatile when compared with other advanced economies.⁵

IMF points out that house prices in the UK have risen by more than in any other G7 country over the past two decades. This partly reflects restrictive planning regulations and other constraints that have long restricted supply, such that even the house-price boom of the early 2000s was not accompanied by the type of building surge seen in other countries such as Ireland and Spain. Since 2008, supply constraints have prevented housing completions from keeping pace with new household formation, adding to upward pressure on prices.⁶

Figure 2. Real House Prices in OECD Economies
(Index, 100 = 1980)



⁴ Property Index: Overview of European Residential Markets, What size of dwelling can people buy for EUR 200,000, 5th edition, July 2016
https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/survey/Property_Index_2016_EN.pdf

⁵ International Monetary Fund, Country Report: United Kingdom: Selected Issues, 2014, p5
<https://www.imf.org/en/Publications/CR/Issues/2016/12/31/United-Kingdom-Selected-Issues-41795>

So why don't we just build more social housing?

Proponents of a social housing expansion often create the impression that the British social housing sector is exceptionally small and the privatisation of council housing that begun in 1980 had decimated the stock to a meagre leftover. Social housing still accounts for as much as one fifth of the total dwelling stock and Britain's social housing sector is one of the largest in the developed world.

The UK has more social housing than France, Germany and Spain.⁷

Social housing is under strain because the housing market as a whole is under strain. There is no specific shortage of social housing, but a general shortage of low-cost housing across all tenures. If low-cost housing was more widely available in the private sector, the pressure on social housing would ease. However, as long as there are needy families on the waiting lists, giving council flats to people who could easily afford private rental is barely an option.

Number of households	Owner-occupied	Private rented	Social rented
England	64%	18%	17%
Wales	69%	14%	15%
Scotland	62%	13%	24%
N. Ireland	61%	19%	17%

Country	Social housing as % of total housing
Netherlands	32%
Austria	23%
United Kingdom, Czech Republic	20%
Denmark	19%
Sweden, France	17%
Finland	16%
Ireland	8%
Belgium	7%
Slovenia	6%
Germany	5%
Italy, Estonia, Hungary, Latvia, Slovakia, Greece	<5%

Please note, however, that social housing is already more used in Scotland than in other parts of the UK.⁸

Why don't we use the vacant houses?

Some politicians and groups suggest "encouraging" or outright confiscations of vacant houses. Before we point out all the other problems⁹ with this approach, consider the following:

Houses can be unoccupied for many reasons - they may be reserved for seasonal or secondary use (such as holiday homes) or they are waiting to be sold, rented, demolished, or simply lying empty and unused.

Eurostat reports that on average, 15.8% of the dwellings across the whole of the EU-28 remained unoccupied. The vast majority of regions with fewer than 5% of their dwellings unoccupied were located in Poland or the United Kingdom, with the only other regions being Bremen and Hamburg (both in Germany), and five Dutch regions.

There were only three of the analysed regions in the United Kingdom in which more than 10.0% of their total stock of dwellings was unoccupied in 2011. All of these regions were characterised as being relatively sparsely-populated and popular holiday destinations - in Scotland it was Lochaber, Skye and Lochalsh, Arran and Cumbrae and Argyll and Bute. By contrast, the Scottish region of West Lothian registered the lowest share (1.9%) of unoccupied dwellings in the United Kingdom, while Thurrock and Outer London - East and North East recorded the second and third lowest shares of unoccupied dwellings in the United Kingdom, at around 2%. North Lanarkshire also recorded the same value as Outer London - East and North East.¹⁰

In other words, there are not that many vacant houses either.

⁶ International Monetary Fund, Country Report: United Kingdom: Selected Issues, 2016, p34-42
<https://www.imf.org/en/Publications/CR/Issues/2016/12/31/United-Kingdom-Selected-Issues-43723>

⁷ Housing Statistics in the European Union 2010, p.67, The Hague: Ministry of the Interior and Kingdom Relations
https://www.bmdw.gov.at/Wirtschaftspolitik/Wohnungspolitik/Documents/housing_statistics_in_the_european_union_2010.pdf

⁸ Home ownership and renting: demographics, Briefing Paper Number CBP 7706, by Cassie Barton, 9 June 2017, House of Commons Library
<https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7706>

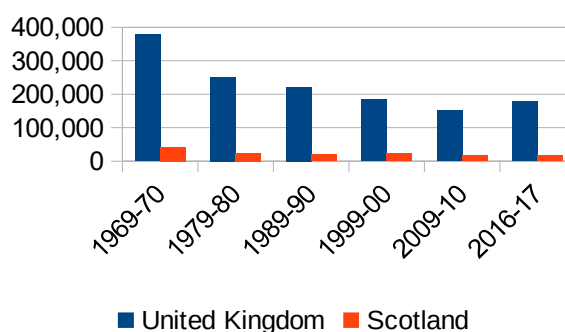
⁹ Scottish Libertarians, CommonWeal: Forget about the consequences of your actions, February 2018
<https://scottishlibertarians.com/commonweal-forget-about-the-consequences-of-your-actions/>

¹⁰ Eurostat, People in the EU – statistics on housing conditions; Data extracted in November and December 2017.
http://ec.europa.eu/eurostat/statistics-explained/index.php?title=People_in_the_EU_-_statistics_on_housing_conditions

The problem: there just aren't enough houses being built

From 1969 the number of completed dwellings has more than halved.¹¹

Financial Year	United Kingdom	Scotland
1969-70	378,320	42,630
1979-80	251,820	23,780
1989-90	221,520	20,190
1999-00	184,010	23,110
2009-10	151,230	17,120
2016-17	178,360	17,130



Meanwhile, the population is increasing and the sizes of the households are shrinking. People are living longer and more people are living independently. Younger people are delaying the age at which they marry or settle down, and more wish to live away from their parental home prior to marriage. In addition, growing numbers can afford a second home.

Longer lives and higher incomes are of course a cause for celebration. But if Scotland continues to build homes at a rate below that of demand, prices will become even more unaffordable.

What are the consequences?

More homeless and people at risk

According to Shelter¹², a charity focused on helping the homeless and those struggling with bad housing, high housing costs increase personal debt levels and increase vulnerability to external credit shocks. Lower housing costs would also reduce their damaging drag on economic performance. High housing costs reduce labour mobility, add additional costs to businesses, and drain disposable income out of the wider economy.

Failure to tackle the supply ratchets up the pressure of the housing crisis. More households will suffer from overcrowding, more families will struggle with rising rents and large mortgages, and fewer young adults will be able to leave their parental homes. Ultimately, having a decent, affordable home to call one's own will become the preserve of fewer and fewer people.

Meanwhile, the OECD warns that stringent planning regulation complicates new construction and weak housing supply reduces affordability and the matching of skills to jobs, which in turn weakens productivity.¹³

Young people without a home

Today's young adults are significantly less likely to own a home at a given age than those born only five or ten years earlier.

At the age of 27, those born in the late 1980s had a homeownership rate of 25%, compared with 33% for those born five years earlier (in the early 1980s) and 43% for those born ten years earlier (in the late 1970s).

The falls in homeownership have been sharpest for young adults with middle incomes.

In 1995–96, 65% of those aged 25–34 with incomes in the middle 20% for their age owned their own home. Twenty years later, that figure was just 27%.¹⁴

¹¹ GOV.UK: Table 209: permanent dwellings completed, by tenure and country, 2018
<https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building>

¹² Solutions for the housing shortage; How to build the 250,000 homes we need each year; Matt Griffith and Pete Jefferys, July 2013
http://england.shelter.org.uk/_data/assets/pdf_file/0011/689447/Solutions_for_the_housing_shortage_-_FINAL.pdf

¹³ Economic Policy Reforms 2017: Going for Growth 2017 priorities, Organisation for Economic Co-operation and Development
<https://www.oecd.org/eco/growth/Going-for-Growth-United-Kingdom-2017.pdf>

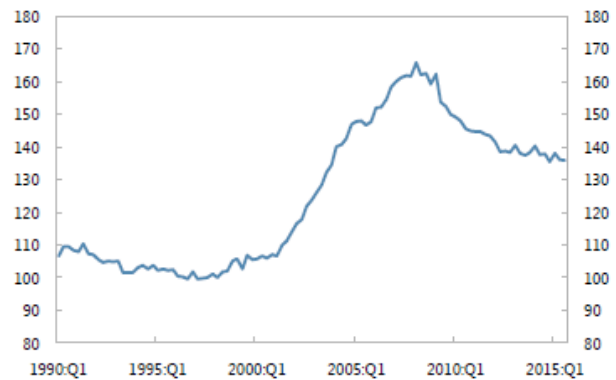
¹⁴ The decline of homeownership among young adults, The Institute for Fiscal Studies, 16 February 2018
<https://www.ifs.org.uk/publications/10505>

More debt

The IMF warns that high house prices have contributed to high levels of household debt. The house prices have forced households to take on high levels of mortgage debt, which in turn is the main driver behind the UK's household debt-to-income ratio of 140 percent. This ratio is high compared to most other advanced economies or the UK's pre-boom (i.e., circa 2000) levels, despite some decline in the immediate post-crisis years.

Easing the constraints on housing supply could support financial stability by reducing incentives for households to take on high levels of mortgage debt.¹⁵ The UK has one of the highest debt levels in Europe, along with Netherlands and Ireland, with residential debt to household disposable income ratio of above 100%.¹⁶

UK: Household Debt to Income Ratio
(Percent of gross disposable income)



Sources: Haver Analytics and IMF staff calculations.

Self-building is very limited

The self build sector in the UK barely exists – the Callcutt Report estimated that self-build made up approximately 15,000 to 18,000 units a year, or 10 per cent of total UK production in the mid-2000s. Of these, as many as 60% may be DIY.¹⁷ More recent estimates say that around 7% of new homes are self-built in the UK and 9% in Scotland.

This is still much lower than in other European countries, and far below that in France (where it accounts for between 40 and 50 per cent of building output), Belgium (over a half), Sweden or Austria (where it is a third).¹⁸

For obvious reasons, self-build developments characteristically achieve higher quality of specification and better cost-in-use. They are more likely to be innovative, not least in sustainability. Self-build exploits small sites particularly well, and is more likely to provide opportunities for smaller local builders – the larger housebuilders tend not to be interested in self-build, which delivers lower (though less risky) profits than their investors expect.

Self building can also make homes more affordable. Much of self-building is about reducing costs rather than designing dream homes and, by removing the need for a homebuilder's margin, many self-builders can save up to a third of the price of a similar home on the open market.

Why is housing failing?

Regulation

A major reason for the housing prices is overregulation and the difficulty of getting building permits. There are planning and zoning laws, building codes, height restrictions and greenbelt policies to restrict the supply. There are help-to-buy schemes, low interest rates, tax privileges for mortgage holders and other policies to drive demand through the roof. Landlord registration, stamp duty and HMO licensing limiting the number of people who can share a flat push up the price of renting to the sky. The City of Edinburgh foolishly wants to impose rent controls. And so on and so forth.

In Scotland, for "local" developments, the average time to get a permit was in 2017 about 12 weeks. 3 months will be spent on haggling with the council whether you can build on your land, hoping for the best. That's not too bad although the time can easily climb to 30 weeks and more, the better part of the year.

For "major" developments, the average time was about 45 weeks, a year and sometimes two. (These are averages so who knows what extremes hide behind them – at the top is Midlothian with an average time of 96.2 weeks.)

¹⁵ International Monetary Fund, Country Report: United Kingdom: Selected Issues, 2016, p32-33
<https://www.imf.org/en/Publications/CR/Issues/2016/12/31/United-Kingdom-Selected-Issues-43723>

¹⁶ Property Index: Overview of European Residential Markets, What size of dwelling can people buy for EUR 200,000, 5th edition, July 2016
https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/survey/Property_Index_2016_EN.pdf

¹⁷ The Callcutt Review of housebuilding delivery, Department for Communities and Local Government, London, 2007, p.27
<http://webarchive.nationalarchives.gov.uk/20120920034713/http://www.communities.gov.uk/documents/housing/pdf/callcuttreview.pdf>

¹⁸ Housing Statistics in the European Union 2010, Eurostat, p.81
https://www.bmdw.gv.at/Wirtschaftspolitik/Wohnungspolitik/Documents/housing_statistics_in_the_european_union_2010.pdf#page=81

These are just the times spent on the permit itself, not preparing the papers or anything else. If you want to build and you find a piece of land, you still have to wait for months or years for the permit.¹⁹

The NIMBY problem

“NIMBY” is a shorthand for “Not-In-My-Backyard” and describes the negative attitude towards any change which might badly affect those who are already established in the area.

In theory, the planning process should mediate between different interests. In reality, participation in the process is very unequal. The typical participants in a planning consultation are well-to-do homeowners, disliking changes in their surroundings and houses that don't look like their own. They are opinionated, articulate and are willing to dedicate time and energy to making their case. These are the people politicians will listen to.

On the other side are low-income renters, young adults who can't afford to move out of their parents' home, or those who linger on a social housing waiting list. You won't hear as much from those with young children or juggling multiple jobs to make a living.

But let's not be too negative about the NIMBYs: after all, they have a point! New developments can mean increased traffic, noise, disruption, or a loss of green space. That's why it is so important to get the economic incentives right.

Communities that permit development must see real benefits, and communities which choose to refuse it must bear at least some of the social cost of their obstructionism. One way to achieve this would be to devolve the housing-related taxes to the local level, starting with the business rates and the council tax.

The Green Belt isn't green or a belt, it's a straightjacket

Contrary to widespread belief, the Green Belt wasn't created to protect the environment. The Green Belt policy was created in the 1950s to “prevent urban sprawl”. Today it's used to direct planned growth to where the government thinks it should go.²⁰

Green belt land is of varying quality, a large proportion of it is low-value agricultural land, or previously developed land, with little social value. Farming today is a highly industrialised process. When it's close to the cities it is also often a marginal economic activity (and it faces a range of additional problems including damage due to trespass, vandalism and fly tipping). Green belts place huge obstacles in the path of economic and land-use diversification; this means that as farming activity declines, it is very difficult to secure replacement activity and land formerly under agriculture may be abandoned and lose much of its previous quality. In this way, the green belt designation can contribute to the degradation of urban fringe land while houses with gardens and parks could be much friendlier to the environment.

The demands for housing can create a fierce competition for homes in green belt villages, displacing local people unable to afford the escalating house prices and gentrifying the communities.

Meanwhile, more development is still needed, resulting in “leapfrogging”, where new housing is built just outside of the green belts, creating commuter towns and more traffic and pollution.

Why do we need more housing?

There are many people that welcome ever-growing housing prices and a depressed housing market: landlords and some house owners. Those who want to sell and move into something smaller. Those who have just bought a house and are up to their ears in debt. Big construction companies that can afford the expense of buying land and getting a permit.

Everybody else loses out.

Jobs and decent life

A growing economy needs a workforce able to move to the best jobs. It needs to be able to build new houses, offices and factories to create more and better jobs.

People need to be able to afford their houses – and to be able to move into a better place without being superrich or up to their knees in debt.

Scotland needs more housing to give everybody a chance at a decent home, rather than living in ever-older and more expensive houses that tie their owners down.

¹⁹ Scottish Government: Planning Authority Performance Statistics - 2016/17 - Annual
<http://www.gov.scot/Topics/Statistics/Browse/Planning/Publications/planapps2017annual>

²⁰ Scottish Planning Policy part 8: Economic Development, February 2010
<http://www.gov.scot/Publications/2010/02/03132605/8>

It is also worth remembering that a limited market is an unstable market – it can't adjust to changes well. If there is a little more demand, the prices can soar. If there is a little less demand, the market can crash and lead to a full-blown economic crisis. Nobody in their right mind should want that.

People worry about closing down post offices, pubs and banks. This is something more housing can help with, at least to some degree: potholes can be fixed faster, bus lines and trains can keep running, train stations can be kept open. You can build more schools and more clinics and have more doctor's offices.

The young need a chance

If you are young and want to buy a house or an apartment, of course you'll want houses to be cheap.

But if you are one of the lucky young people that have a house, low housing prices can be good for you as well. Chances are you'll want to move into something larger one day – and expensive housing undermines all your choices. You'll have to save more, take on more debt or move into a less attractive location to find the house of your dreams.

Of course, you may hope for a great inheritance from your parents one day when they don't need their house anymore. Which is fine, although you may wait for decades until your parents retire – at which point you probably won't need a new home or be desperate for money.

The retirees need options, too!

The older generation seems to have the best deal out of the situation: their houses just keep growing in value! They should still consider what kind of a world they leave to their children: instead of improving their lot, each successive generation will have to work that much harder to find a comparable property than their parents, if not a worse one.

When compared with other countries, the standard of living in terms of housing has fallen over the years.

For those who care little for the young, there is still a good reason to hope for lower prices. As they age, many old people refuse to move out of their houses where they are comfortable – and so they never realize that amazing value hiding in their house walls.

But some will decide to retire or move somewhere more comfortable. Although they can certainly cash out, expensive housing limits even their choices and the taxes and fees can eat a lot of what they took for granted. The aggressive market with a limited supply will make it hard to make the right choice: houses are quickly snapped up and finding the right one and getting it may take years.

Renters need cheap housing and choice

Cheap housing is of course attractive for those who rent.

But there are more reasons to want housing reform: a limited supply means there are few landlords compared to many renters. Landlords can afford to be picky – and with more and more regulations that limit what they can earn they must be picky. Letting is not a cheap or easy proposition and it takes money to keep a place in good shape. To be able to do that, landlords will bet on the safest tenants they can find. Those with problematic backgrounds or a small income will find themselves with few choices and at the bottom of any list. High rents make people vulnerable.

The solution is not to pile on more demands on landlords – that will only lead to less people willing to let. Scotland needs more housing in all forms.

What can we do?

High house prices are not a sign of success but a sign of failure to deliver the housing that the citizens need. Of course, if you are an investment banker, a media personality or a sports star, you will always be able to live a decent life, no matter how expensive your city is. If, however, you are teacher, a nurse, or shop assistant your experience of city life will be very different.

But is this the kind of society we want to live in? And isn't this kind of social polarisation exactly the breeding ground for populism and resentment we are witnessing?

The ultimate objective of urban policy is to improve outcomes for people rather than places. Let's make sure that's the case!

Make building easier

The English campaign group YIMBY (“Yes In My Backyard”) proposes to start with these three policies that should be acceptable to politicians and voters at large:²¹

1. Allow streets to vote on whether they can build anything up to six storeys themselves.
2. Allow parishes to “green the green belt” and develop the ugly sections of the green belt in exchange for community benefits (such as parks). In Scotland, community councils can fulfill this role.
3. Allow city regions to set more planning policy locally, permitting more housing where popular.

But there is much more. We need to deregulate and encourage more small and medium companies, as well as self-builders to build more. More diversity in the development industry will increase competition and improve the sector’s resilience to economic shocks.

People should not need to obtain permission for change of use - especially from commercial and industrial property to residential property. Councils should only be allowed to block planning applications if an objector is able to demonstrate that they will suffer physical damage to their health or property if the application is allowed.

Sell Public Land

In 2014, an estimated 889,000 ha. or 11% of Scotland’s land area of 8 million ha., was owned by the Scottish Government and local authorities. Unfortunately there is little information about the land and buildings they own, particularly in urban areas. There is also limited information on the extent of other land owned by Scottish Ministers and managed by various parts of the Scottish Government, such as Historic Scotland, Transport Scotland and others.²²

If the government is so eager to let people have cheaper housing, it has the perfect tool at hand to help them – if it can only figure out what it has. Selling off public land can also help to repay the public debt when the government finally stops spending more than it earns.

Reform Council Finances

New development broadens the taxpayer base, which should make possible either a lowering of local tax rates, or an improvement of local public services - or both! But the current tax system is highly centralised and new housing currently means just more expenses for the councils and more money for Holyrood.

The council tax and business rates need to be devolved to the councils. This would make councils less dependent on the Scottish government and more directly responsive to their citizens. Councils that can attract more people should be able to get more income to provide more and better services to everyone, rather than go begging the government for more. Thus could be expanded to include all housing-related taxes, like the capital gains tax, stamp duty and inheritance tax. Now that’s real devolution!

See more details about our reform proposal under scottishlibertarians.com/council-finance-reform

Don’t ruin other people’s hope of living well

What can you personally do improve the housing situation?

- Think twice before joining the many complainers who object to any and all new development.
- In fact, support new development where you can. It is sadly too fashionable to stand in the way of other people’s dreams.
- Don’t support political candidates and policies that make the situation in the housing market worse.
- And of course...

Join the Scottish Libertarians!

The Scottish Libertarian Party is the only party with a plan that is not just a bandaid.

Visit scottishlibertarians.com to find out more. Come to our meetings and meet us in person. Help us change something for good!

21 London YIMBY; Yes In My Back Yard: How To End The Housing Crisis, Boost The Economy And Win More Votes; 2017 John Myers <https://static1.squarespace.com/static/56eddde762cd9413e151ac92/t/598c03c5be6594815d7741c5/1502348236073/John+Myers+-+YIMBY+-+Final.pdf>

22 Land Reform Review Group Final Report - The Land of Scotland and the Common Good, May 23, 2014; Section 9 - Extent of Public Land <http://www.gov.scot/Publications/2014/05/2852/298135>