

HOUSING AND THE EURO

A Briefing on the impact of the Euro on British Housing policies

EXECUTIVE SUMMARY OF KEY POINTS:

- **Housing transaction costs and house prices would be very likely to rise significantly if we join the Euro.**
- **Admitting low supply has led to higher house prices is also admitting a Government failure to meet demand, a position which will continue without fundamental changes in housing policy.**
- **Joining the Euro means fundamentally altering the housing market: an unhealthy move towards bottling up economic fluctuations (which are inevitable) by removing tools for managing them and thereby protecting people, in this case because of the impact of interest rates on housing in the UK.**
- **The privatization of risk, through the expansion of consumer credit and emphasis on home ownership since 1980's Right to Buy legislation, has created a society exposed to much more household debt-creation opportunities. The existence of this problem is "accepted" as a feature of contemporary capitalism, making legislation to change it – in order to join the Euro – very difficult, multi-faceted and probably the work of decades rather than years.**
- **The more housing is treated as a 'flow' of capital, an asset almost certainly bound – because of housing scarcity – to increase in value, the less it will be a sustainable 'stock' of security and wealth for the household. A consistent increase in supply of low cost units can erode scarcity and rising prices forcing people back upon the basic security of a home. However, it could also mean people do not feel free to move for job and study reasons, meaning that this approach could not be followed unless significant regionalisation of the UK took place with shorter commuting times to job or study locations. This also relates to the issue of negative equity, meaning change in this area – however desirable - should be evolutionary. This also means that a Government trying to alter the housing market quickly to join the Euro could expect stiff opposition from a wide variety of financial institutions and households. The only way to alter the housing market quickly would be to increase the supply of housing from public funds: precisely the opposite of what New Labour have been achieving, and the very antithesis of their post-Thatcherite approach to housing.**

- **The Government is a victim of its own failure to create alternatives to Thatcherism. Property ownership increasing meant that there was a transfer from savings, which were flexible for individual use, to property, which generated equity only if supply was constrained to force up prices or if significant repayment had been achieved. It would seem to follow that only a larger proportion of households in secure rented accommodation, with rents strongly controlled to keep them down, would be likely to permit a significant long-term rise in savings and therefore in resources for other needs like pensions and subsidising children through Higher Education.**
- **Fixed rate mortgages are now available in the UK for 10 and 25 year periods. Unhelpfully for the Government, these mortgages are at about 2% above the cheapest discounted variable rates. Consequently, the Government's Housing Assessment makes the devastating conclusion for its own pursuit of the Euro that there is unlikely to be a voluntary move towards fixed rate mortgages. Penalties for early repayment are also an unaddressed factor.**

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In his speech on the Euro decision, Gordon Brown said:

“The issue in housing, where we are more interest rate sensitive, is not the attainment of identical market structures with other countries - all countries have unique features of their market - but the fact that to deliver stability in Britain the combination of house price inflation and volatility --- and the impact of both on consumption --- has generally led to interest rates higher than other countries.

“Indeed most stop-go problems that Britain has suffered in the last fifty years have been led or influenced by the housing market. The volatility of the housing market and potential for higher inflation is a problem for stability that we are determined to do more to address to produce greater stability and reduce the risks of inflation irrespective of the decision on the euro.

“Because Britain has experienced difficulty in balancing housing supply and demand, we propose to build upon and extend the reforms already announced by the Deputy Prime Minister in respect of planning and supply - including simpler planning guidance, speeding up decisions, reserve powers to call in applications, and the case for binding local plans – and, having asked Kate Barker to conduct a review of issues underlying the lack of supply and responsiveness of housing in the UK, we will bring forward further

proposals in the Pre-Budget report and Budget on how we can produce greater stability in our housing market.

“And because Britain has had a different system of housing finance - just 7 per cent of mortgages in the UK are at long-term fixed rates - we are learning the lessons from other countries, where for example in America they securitise long-term fixed rate mortgages, and an independent review is now examining the structure of mortgage finance including the case for - and how we can help the development of - the long-term fixed rate mortgage market in the UK.

So further housing market reforms will be put in place over the coming year – reforms right in any event for the British economy - reforms that will help ensure that, by having a reduced propensity to house price inflation, stability can be further entrenched.”¹

Gordon Brown essentially offered a revolution in the housing market in his Assessment speech of 9th June 2003:

“I am asking by the time of the Pre-Budget Report for interim reports on the step changes we need in the planning and supply of housing and on the market for long-term fixed rate mortgages.”²

However, as is easy to demonstrate below, this runs counter to housing policy as it has been developed in the UK since 1979.

PRIOR WARNINGS ABOUT EURO IMPACT UPON THE HOUSING MARKET

Even before his speech, considerable controversy existed about the effect of joining the Euro upon the housing market. House price rises of 30% in three years were suggested by the Royal Institute of Chartered Surveyors (RICS).³ RICS further warned that rate cuts necessitated for conforming to the European Central Bank and allowing UK rates to converge would lead to boom then bust in the British housing market. The bust would result from unsustainable price rises and could be made worse by ECB interest rate rises. The report predicted house prices rising at between just 3 and 13 per cent over the next two years if the UK remained out of the Euro. Conversely, deciding to join the Euro two years from now would be likely to lead to house price rises of 15 to 28 per cent by 2006. The same article also notes:

“When Ireland, which has a similar housing market to the UK, moved towards euro entry in 1998, house prices rocketed by more than 30 per cent, and continued to rise sharply in both 1999 and 2000. Ireland has so far been spared a collapse in the housing market because ECB rates have continued to fall, RICS says.”

¹ 9 June 2003: Statement by the Chancellor of the Exchequer on UK Membership of the Single Currency -- from version not checked against delivery, but suitably indicative of the Government's position.

² http://www.hm-treasury.gov.uk/documents/the_euro/assessment/euro_assess03_speech.cfm Hereinafter, “Assessment.”

³ James Daley - Euro entry 'would lead to housing boom' - *Sunday Telegraph* – 8th Jun 2003.

Graeme Leach has also offered a prior damning assessment of the position of UK mortgages in relation to the Euro.⁴ Perhaps his most powerful argument relates to long-term interest rates:

“The OECD⁵ forecasts that the UK will continue to have lower long-term interest rates than the Eurozone for the foreseeable future and that the gap will widen further in future years as European economies are forced to tackle huge unfunded pension liabilities which will put substantial upward pressure on borrowing costs. Outside the Euro, Britain will not share these pressures. Inside, it would.”⁶

This trend means that UK mortgage holders, with variable rate interest on their lending running at 67% of new mortgages during 2001, are currently insulated from higher interest rates for a long period. Joining the Euro would change this, as interest rates would be likely to rise given the performance of the Eurozone in general and its pensions problems in particular. In a worst case scenario, we could return to the savage era of Thatcherite monetarism: the worst real unemployment in 20th Century British history at about 4.5 million; the worse rates of business closures; the worst rates of repossessions. Having inflicted this disastrous monetarist zealotry upon the UK, the Conservatives then took Britain into the ERM, in which, as Leach recounts: unemployment doubled; 100,000 businesses went bankrupt and 1.75 million mortgage holders entered negative equity.⁷ Although primarily concerned about the vulnerability of the UK housing market to interest rate increases, Leach is also worried about transaction costs increasing in the Eurozone, since most countries have VAT on new homes and other transaction costs also tend to be higher.⁸ We will return to this issue in the section on the South East (SE) below.

ASSESSING THE ASSESSMENT: Housing consumption and EMU

An examination of the Government’s Assessment on the housing issue is necessary at this point. The Executive summary of this Assessment gives a basic picture, but one which, like the rest of the Assessment, can be argued to be under-stating the difficulties of achieving fundamental changes in the housing market. There is clearly considerable emphasis on housing as a “market” and comparatively little on supply issues or on social needs. The lack of emphasis on policy in these two areas pushes the Assessment towards market-based methods of securing a housing market sufficiently stable for Euro entry. The Assessment is in fact only about 4 key structural features of the housing market: house price trends; mortgage markets; housing tenure; mortgage equity withdrawal.⁹

⁴ Graeme Leach – *UK Mortgages and the Euro* (London: No Campaign and New Europe, 2001) – also on No Campaign website under publications: www.no-euro.com

⁵ The Organisation for Economic Cooperation and Development, the policy coordination “club” of the world’s richer states.

⁶ Leach, 2001, p.4.

⁷ Leach, 2001, p.5.

⁸ Leach, 2001, pp9-12.

⁹ Assessment, Executive Summary, p.1.

Despite the full range of factors in the housing sector, the concern of Government in this area can be reduced to:

“If households’ spending is significantly more sensitive to interest rate changes in the UK than in the euro area as a whole, a common monetary policy could induce some relative instability in the UK housing market and households’ spending.”¹⁰

The Assessment is quite misleading about the role of Government in failing to provide housing to meet needs, suggesting that “*..the responsiveness of housing supply to demand pressures is particularly low in the UK,*” when in fact the responsiveness of successive Governments is at issue. Admitting low supply has led to higher house prices is also admitting a Government failure to meet demand. Owner occupation, now at 70% of households according to the Assessment, appears a “triumph” for Thatcher’s model of a “property-owning democracy.” However, mortgage debt is now 60% of Gross Domestic Product, indicating that “ownership” is a tentative condition, not an absolute one and that savings have been sacrificed to home ownership despite other pressures on disposable income. The Assessment clearly favours moving towards more fixed rate mortgages to eliminate the market fluctuations of the past, in line with practice in most other EU states.¹¹ The serious problem of endowment mortgages not paying off mortgages already arranged is not mentioned, although it can be considered to be part of the risks of ownership loaded on to households by uncontrolled financial institutions.

The entire Assessment does not sit well with notions of sustainable development, viewed through the writings of the Prime Minister’s favourite architect, Richard – now Lord – Rogers. In his 1997 work, *Cities for a small planet*,¹² Rogers offered an urban design-based vision of sustainability suggesting a move from the crass and insensitive architecture for which Britain is infamous and which the public rightly condemn with the assistance of Prince Charles, to a more Austrian-like model of urban sustainability where design and building standards are exceptionally high and architects are revered alongside popular artists. Older and wiser after his experience with the Urban White Paper and New Labour’s propensity for rhetoric over delivery, he enlisted Professor of Social Policy Anne Power for a more critical analysis in 2000.¹³ Their analysis suggests far more resources for housing and severe constraint on Right to Buy.¹⁴ Noting that 2.7 million more single person households are expected over the next 25 years,¹⁵ they also observe how the extreme pressures upon New York have been met outside private purchasing: 65% of housing is privately rented, or the result of public or other non-profit making initiatives with New York City Council the largest landlord in the USA at 150,000 units.¹⁶ This is a virtual reverse of the situation in the UK, in terms of ownership/tenure, and may represent a more sustainable means of meeting the needs of most income groups than the current housing market, and one very much in line with Green Party policy.

¹⁰ Assessment, *ibid*.

¹¹ Assessment, Executive Summary, p.2.

¹² Richard Rogers – *Cities for a small planet* (London: Faber, 1997).

¹³ Richard Rogers and Anne Power – *Cities for a small country* (London: Faber, 2000).

¹⁴ Rogers and Power, 2000, p.242.

¹⁵ Rogers and Power, 2000, p.226.

¹⁶ Rogers and Power, 2000, p.239.

Curiously, the Assessment is excessively concerned with the phenomenon of mortgage equity withdrawal. Since some of this is clearly for consumption, we may wish to question the practice in principle. However, it may also signify the hefty maintenance bills house owners face and the huge burden of supporting children in Higher Education. Some parents are even using their equity to buy property in locations where their child is in University to keep costs down by making their child into a landlord effectively acting on their behalf. Maintenance costs are one of the factors suggesting that flat/apartment living would help incomes go further.

Although there are some countries with superficially similar housing policies to the UK, the key differences between the UK and other EU states include: higher house price growth; poor supply of housing; higher mortgage debt except for Germany where “mortgage debt” is often held by landlords; higher owner occupation than most other European states. There is currently no serious evidence of convergence of housing market practices as a result of joining the Euro, within the Eurozone.¹⁷ Since the EU does not have competence in the housing area, significant convergence is unlikely.

Moving on to the body of the Assessment, there is clear concern about the potentially recessionary effects of rising mortgage interest payments, since they cut disposable income and therefore consumer spending. It also follows, from an equity point of view, that reduced housing costs could help the low paid. A very simplified view is offered that:

“Consumers face a choice between spending their income today or saving to fund future consumption.”¹⁸

In fact, privatization has led to increased costs for some utility bills and the continuation of high standing charges even where prices have gone down; higher education costs have been “privatized” back to households to a large extent; the benefits of free access to the Internet via privatized telecommunications have yet to arrive; monopoly and oligopoly pricing of goods has not been constrained by Government eg CDs, DVDs, Cars. So consumers actually face the choice of putting up with Government policies in these areas or taking their vote elsewhere. The language of the Assessment favours consumption as a “good” without considering its long-term implications:

“..it is often argued that relatively high levels of personal borrowing in the UK show that availability of credit is not likely to represent a serious constraint on household spending in the short-term, especially for homeowners.”¹⁹

Management of personal finances is not taught in schools, so the glib nature of this comment conceals a burgeoning “industry” of debt counselling operating primarily through Citizens Advice Bureaux, helping those for whom meeting the challenges of

¹⁷ Assessment, Executive Summary, p.4.

¹⁸ Assessment, p.9.

¹⁹ Assessment, *ibid.*

personal financial management has proved too much. Essentially, this is the privatization of risk, where those least able to cope or those made vulnerable by personal business failure may lose both homes and businesses in the process.²⁰

It is worth bearing in mind that much of mortgage debt and other borrowing, eg credit cards, is at variable interest rates,²¹ so the combination of the two in some households makes them exceptionally vulnerable to interest rate increases.

It is also worth bearing in mind the regional differentiation not just in house prices, but in the level of new build. Given the Government's plans to expand Ashford, Milton Keynes, Stansted and the Thames Gateway – and unplanned expansion in other locations notably Cambridge – large areas of new housing, almost exclusively private and about two-thirds variable interest rate mortgaged, creates zones of what may be described as “future recession” if joining the Euro is accompanied by higher mortgage interest rates. Apparently wealthy areas of the country could be hit by the double consumption cutting effects of higher interest rates increasing mortgage payments and negative equity as prices sink in a diminishing market. Specific regional studies of precise proportions of households exposed to this risk would be desirable, since the householders involved need to know they should not support the Euro!

The Assessment repeats business mythology about supply:

“Limited availability of land, together with planning regulations.....are likely to represent important constraints on housing supply.”²²

This is misleading, since surface car parks and vacant brownfield units are present in many locations, even in the South East. Developers may want greenfield sites, but the availability of land for urban regeneration is apparent to anyone who looks eg. In the Thames Gateway and in Ashford, which apparently “need” more greenfield site housing. Planning regulations do not hold up supply, developers do: since outline planning permission is for five years, developers can wait whilst prices rise and build when it suits them. This lengthy period allows plenty of time to resolve matters of detail with local authorities. The “southern front” in the New Labour attack upon the landscape can be understood as a result of surrendering to developer pressure: why build homes in the North-East when, with similar costs in the SE, far higher house prices prevail? There is no real planning constraint by local authorities, only the desire of developers for more greenfield sites to contend with.

There is a more technical factor encouraging unsustainable housing market activity within areas of major movements which is worth mentioning. The Assessment suggests:

“Econometric studies of house prices also point to the existence of important ‘threshold’ effects, or non-linearities, in house price determination: as prices

²⁰ The writings of sociologist Ulrich Beck on “risk society” are instructive on the role of risk in society.

²¹ Assessment, p.10.

²² Assessment, p.13.

begin to rise in response to a positive shock, more households are pulled over the transaction costs barrier²³ to engage in trade, fuelling price ‘bubbles’ where prices may move far out of line with longer-term fundamentals as a result of unrealisable expectations.”²⁴

In simpler language, estate agents signs sprouting in a street where house price increases have been substantial may lead to ‘copycat’ actions in which more house sales, and more knowledge of house prices gained amongst neighbours, can lead to a rush to sell houses to permit moving up in house size, or down to take capital towards early retirement, as examples. If more fixed rate mortgages means less flexibility about when property may be sold, then obstructing this common speculative activity may be hard to sell to mortgage holders who wish to retain flexibility even if this means retaining variable interest rate mortgages with their attendant risks. Since a substantial proportion of British mortgage holders re-mortgage every 2-5 years, there would need to be a significant policy and attitude change to alter this activity:

“To move to a longer-term fixed rate mortgage environment would require either that long rates become expected to remain below short rates for some time and to be competitive with up-front discounts offered on other deals or a switch in consumer preferences, with borrowers placing more value on the certainty about future interest payments which fixed rate mortgages provides. Alternatively, a system that allowed renegotiation when long rates fell as in the US, would be likely to encourage the take-up of longer-term fixed rate mortgages.”²⁵

This essentially means that the Government may be forced to regulate mortgage lending practices rather more than is characteristic of its market-led approach. Resistance from the financial sector and the public is to be expected.

The Assessment is accepting the general view that, as it states:

“Housing is a key asset for households.”

Subjecting this to a more questioning Green analysis, the more housing is treated as a ‘flow’ of capital, an asset almost certainly bound – because of housing scarcity – to increase in value, the less it will be a sustainable ‘stock’ of security and wealth for the household. A consistent increase in supply of low cost units can erode scarcity and rising prices forcing people back upon the basic security of a home. However, it could also mean people do not feel free to move for job and study reasons, meaning that this approach could not be followed unless significant regionalisation of the UK took place with shorter commuting times to job or study locations or far more people working at home. This also relates to the issue of negative equity, meaning change in this area –

²³ Assessment, *ibid.* From the Assessment: “The transaction costs barrier describes the point up to which the level of transaction costs affect the decision of the individuals to participate in the market, and beyond which no longer acts as a barrier.” Meaning the household believes factors like the actual cost of moving have been dealt with by the scale of the house price increase they have been able to ascertain.

²⁴ Assessment, *ibid.*

²⁵ Assessment, p.24.

however desirable - should be evolutionary. This also means that a Government trying to alter the housing market quickly to join the Euro could expect stiff opposition from a wide variety of financial institutions and households.

Differences between EU states in the housing sector are substantial. There are countries with higher proportions of home ownership – Luxembourg, Greece, Spain, Belgium and Ireland; there are countries like Germany and Denmark with 40-50% home ownership. Permitted advances on mortgages vary from 100% in the UK to an Italian maximum of 50%: most other countries are in the range 60-80%. There are huge variations in indirect taxation and other transaction costs.²⁶ Higher mortgage debt in Germany, Sweden, Denmark and the Netherlands is a reflection of landlord debt not owner-occupation.²⁷ There is little sign of a converging housing market as interest rates alone do not afford the ECB a strategic policy in this area. British sensitivities on this matter are increased by commuting costs, since British commuters travel the longest distances of people working in Europe and for many rail fares have risen above the rate of inflation since Rail privatization.

The Government may investigate the mortgage bond system used in Germany, Sweden and Denmark but currently unavailable in the UK. These are used as a longer-term funding source, usually at fixed rates of interest. Mortgage bond markets are generally very tightly regulated to control risks and returns are usually higher than other Government bonds. Favoured by insurance companies and pension funds as long-term investments, this form of finance has reached about 19% of mortgage funding in the EU.²⁸ This policy initiative, if taken, would represent a clear break away from Britain having such a high share of variable rate mortgages, and is worth considering for its own sake, not simply as a ruse to make people accept the Euro.

The significant presence of more single-person households in the UK does not mean there is a clear link from demographic pressure to household formation. High prices for homes induced by scarcity may act as a constraint on household formation.²⁹ In Ashford, one of the Government's target areas for housing expansion, the *Ashford's Future* study revealed over 1700 'concealed households' unable to access any other form of housing than living with parents/in-laws.³⁰ If this pent-up demand were met by house-building, then the environmental effects would be highly negative since much of it would be achieved by using greenfield sites³¹; if met by flats/apartments in the town centre using available land and surface car parks, then this constraining of demand into flats/apartments would have regenerative effects in the town centre which is, to a degree, under "siege" by out of town centre shopping developments. Similar phenomena may exist in other areas with high house prices.

²⁶ Assessment, pp20-22.

²⁷ Assessment, p.21

²⁸ Assessment, p.25. and see for more details: Annex B, pp93-97.

²⁹ Assessment, p.35.

³⁰ *Ashford's Future* – report of consultancies and government bodies on the capacity of Ashford to expand, at www.ashford.gov.uk

³¹ An intriguing prospect given the substantial area of flood plain and flood prone land in and around Ashford.

Only Sweden has invested less in housing as a percentage of GDP in the EU, than Britain – since 1960.³² This may be influenced by the ageing population of Sweden, which is too northern a state in terms of climate with too challenging a language barrier to attract sufficient migrants to meet labour scarcities – a factor likely to push up housing demand.

Although Britain has a more elderly housing stock, we did have a housing boom in the inter-war period which was apparently unique. Where Britain is not unique is that France and Germany actually have fewer people per dwelling on average than we do.³³ The difference is that a lot more people live in flats. Volatility in house prices in the UK is not unique, although the Assessment offers little reference to how housing cost problems are dealt with in comparison to the past “grim reaper” approach of repossessions in the UK. There is some suggestion that processes for repossession are much slower in some countries. Where the UK is different is in having the lowest pay in the EU, and an absence of real job security in many categories of employment. New Labour has proven as unsympathetic as the Conservatives on the subject of employment protection and rights. Inevitably, this contributes to the public feeling more insecure. People will continue to be concerned about rises in housing costs via interest rate rises on their mortgages which they may well have struggled to afford. Low wages and easy credit have also encouraged many to succumb to taking out “loans” in the most expensive way: through credit cards.

Secured borrowing and equity withdrawal grew under the liberalising actions of the Thatcher regime, which included removal of exchange controls (1979); greater freedom to offer mortgage loans including 2nd mortgages and top-up loans (1979); removal of direct control over bank lending (1980) – also the year Right to Buy for council house tenants was introduced; banks granted freedom to compete with building societies in mortgage provision (1981). Thatcher was in fact building upon massive cuts in housing made by the previous Labour Government. Her Government’s neo-liberal imprudence resulted in a dramatic fall in savings and UK household sector debt doubled as a proportion of disposable income during the 1980s.³⁴ What this meant was that there was a transfer from savings, which were flexible for individual use and for banks and financial institutions to invest, to property, which generated equity only if supply was constrained to force up prices or if significant repayment had been achieved. It would seem to follow that only a larger proportion of households in secure rented accommodation, with rents strongly controlled to keep them down, would be likely to permit a significant long-term rise in savings and therefore in resources for other needs like pensions and subsidising children through Higher Education.

Changes in house prices and household spending are strongly correlated in the UK,³⁵ perhaps a reflection of incomes not necessarily rising with inflation for large numbers of

³² Assessment, p36.

³³ Assessment, p.37.

³⁴ Assessment, p.53.

³⁵ Assessment, p.58.

people in sectors like retail, meaning that mortgage equity withdrawal is a kind of income substitute.

Whilst stressing the sensitivity of the UK to interest rate increases, the Assessment also notes how the varied policies of EU states mean that uniform monetary policies in the Eurozone do not mean identical mortgage rates. Factors include: differing ratios of fixed and variable rate mortgages; level of security required against the risk of mortgage debt; differences in the efficiency of mortgage lenders; real mortgage rates varying with differences in inflation rates. However, differences are narrowing in the Eurozone.³⁶

Fixed rate mortgages are now available in the UK for 10 and 25 year periods. Unhelpfully for the Government, these mortgages are at about 2% above the cheapest discounted variable rates. Consequently, the Assessment makes the devastating conclusion for Government pursuit of the Euro that there is unlikely to be a voluntary move towards fixed rate mortgages.³⁷ Penalties for early repayment are also an unaddressed factor. This will be particularly difficult to sell to the public.

HOUSING COST INCREASES: THE CASE OF THE SOUTH EAST

Since it is clear that convergence with European housing markets will mean higher transaction costs as part of the price of joining the Euro, we should briefly consider how this might influence a region, and whether this might have significant depressive effects upon the economy and the pursuit of sustainability. The South East Region has been selected for this purpose. Some precautionary information is worth noting initially. First, contrary to popular mythology, only 9% of population increase in London and the SE during the 1990s is from the North and the Midlands.³⁸ Net inward migration from outside the UK contributes to household growth since this migration is particularly important in London,³⁹ acting as one of the factors explaining why people move from London into the SE, aggravated by the poor record of many Labour-run London Boroughs in providing a decent environment, let alone housing. Surveying population increase 1991-97 in the SE, the total population increase of 280,000 included 79,000 from international migration and 132,000 as a result of migration within the UK.⁴⁰ The latter reflects substantial urban dweller preference for living in the countryside: 72% in one survey,⁴¹ suggesting a marked need for urban regeneration with real resources. Despite moves into rural England from metropolitan centres, the Government's Rural White Paper had no new funding attached. The SE is expected to have a 26% increase in households 1996-2021, due to a variety of pressures.⁴²

Some pertinent brief critical analysis by Larry Elliott and Charlotte Denny is worth considering:

³⁶ Assessment, p.79.

³⁷ Assessment, p.83.

³⁸ Richard Bate, Richard Best and Alan Holmans – *On the move: the housing consequences of migration* (London: Joseph Rowntree Foundation, 2000), p.v.

³⁹ Bate et al, 2000, p.1.

⁴⁰ Bate et al, 2000, p.3.

⁴¹ Bate et al, 2000, p.14.

⁴² Bate et al, 2000, p.18.

Their argument is that a Government without control of interest rates would face a booming out of control housing market, which tallies with the suggestions of the Royal Institute of Chartered Surveyors above. It would have to fall back upon taxation as a means of trying to keep prices down as part of efforts to keep inflation under control: stamp duty increases and capital gains tax on first homes when sold being very likely options as revealed in Gordon Brown's fiscal stabilisation and EMU Assessment.⁴³ Areas of the greatest housing transaction activity and new build, such as John Prescott's designated areas of housing expansion – Ashford, Milton Keynes, Stansted and Thames Gateway – would be severely hit since increasing taxation would mean that money which would otherwise been used for consumption in local enterprises will go to the Exchequer instead. There is in consequence a probable recessionary effect of such taxation, which even the SE Region would have difficulty shaking off. And if the Chancellor was particularly successful in depressing house prices, the reward for homeowners could well be negative equity. The route out of housing “boom-bust scenarios” has to be a larger role for the public sector in the supply of housing, as Green Party policy suggests.

Housing conditions in the South East seem detached from the conventional economic “success” this region is deemed to possess. Despite designated housing growth areas such as Medway (ThamesGateway) and Thanet, housing completions are running at about 11% below Government-imposed target figures in the South East Region: 25,000 instead of 28,000 during 2001-2002. This may be attributed to developers acquiring outline planning permission and having five years to act upon it. Since prices have been rising rapidly – by 40-60% a year in parts of Kent, for example, the recent “plateau” in prices may lead to more rapid construction. But who for? Estate agents recently complained of a surplus of 4-5 bedroom houses in Ashford with insufficient supply of 2-3 bedroom town houses. In Thanet, average pay of £18,700 equals only a £65,500 mortgage from “responsible lenders.” Average property price prices in Thanet in March 2003 had reached £126,086. Rural settlements in the SE of under 3000 population have the grand total of 720 new homes planned for financial years 2004-2005 & 2005-2006 in total. People born in villages can rarely afford to buy property in them: a two bedroom house in the village of Wye in Kent in June 2003 would cost about £140,000, with three bedroom properties starting at about £180,000. But very few properties in such villages come available each year and small new properties under construction at present are on the market at £230,000.

The South East Regional Housing Board has benchmark weightings for different groups for affordable housing. “Affordable” often means the cheapest and smallest units in new estates which remain “unaffordable” for many. The weightings include 25% for key workers – which makes sense – and 20% for “Prospective Home Owners”, which is quite ridiculous.

The top 20 districts in the South East with the highest proportion of households unable to buy at current prices if relying solely of income, as identified in a Joseph Rowntree Foundation study, were spread throughout the South East but none were in Kent,

⁴³ Larry Elliott and Charlotte Denny – Home thoughts from abroad *The Guardian*, 11th June 2003.

suggesting outward migration from London may favour Kent over other areas should this continue, on a price basis alone. It remains to be seen whether supply in Kent keeps up with demand from London – primarily for new private housing not intended for first time buyers. Rural area house prices in the SE are the highest in the UK. Despite this, and subject to the myth of “affordable” housing, we should note that – of 67 local authority areas in the South East – 63 have terraced houses at a price more than 4 times average earnings. Regional Planning Guidance 9 suggested a need for 11,500-12,000 extra affordable homes each year; only 6200 such homes were provided in the South East in 2002-2003. During the period 1999-2000, Canterbury City Council as an authority notably successful at obtaining funds for low-cost housing in cooperation with a surprising number of local voluntary groups and housing associations,⁴⁴ was facing the prospect of providing just 50 low-cost housing units a year against local demand for 475 per year. Given that the SE region has 119 wards in the bottom 20% of Indices of Multiple Deprivation in the country, this is a particularly grim picture.⁴⁵ At the end of March 2002, 129,234 households were on local authority waiting lists in the SE region: 14% more than in 1999; at the same time, 1147 households were in B&Bs, 20% more than in 1999 and a further 11702 households were in other temporary accommodation. Ethnic minorities at 3.5% of the population in the SE were over-represented amongst those accepted as homeless in December 2002 at the depressing level of 16%. The 84,000 empty homes in the region are only 10% public sector owned. Some of the public sector “voids” may be expected to be short-term cases where the Local Authority is refurbishing/repairing after the end of a tenancy.⁴⁶

What this catalogue of implied despair demonstrates is the socially-unacceptable nature of the housing market and the need for a higher proportion of secure homes for rent in the overall housing stock. Local Authority purchase of housing on the open market including compulsory purchase of empty properties is essential. Obligations to meet centrally-imposed housing targets must also be lifted. Government arrogance and complacency, considering the far worse conditions for the poorest groups in regions other than the SE, is epitomised by John Prescott:

“Crime is coming down, education is improving, there are more jobs, more investment, a cleaner environment and better local government. But we’ve a long way to go and a lot to learn. Creating good towns and cities is not rocket science. We used to do it decades ago and we were good at it.”⁴⁷

⁴⁴ Canterbury only has a population of about 40,000. However, the Local Plan of the early 1980s increased retail floor space in the City by 20% and Park and Ride sites from 1987 were accompanied by further out of town development. The current re-development of 18 acres of town centre at Whitefriars will add to the immense retail concentration in the City. Given the presence of shoppers, 20,000 students and a level of tourists only otherwise experienced by London in the UK, homeless people have congregated in the City and attracted a significant expansion of voluntary and paid efforts to re-house them.

⁴⁵ But bear in mind that the SE has only 0.4% of its wards in deemed to be in poverty (1998 figure). Anne Power in Bate et al, 2000, p.22.

⁴⁶ Material taken mainly from the draft Regional Housing Strategy for the South East Region, consultation draft of 17th June 2003, plus local newspaper coverage in East Kent.

⁴⁷ John Prescott, speech to Urban Summit, 31st October 2002:

www.odpm.gov.uk/about/ministers/speeches/prescott/311002.html

Of these assertions, only the one about investment, meaning foreign direct investment presumably, can be considered to be accurate. Little wonder that Mr Prescott was later attacked by his town planning adviser, Lord Richard Rogers, for promoting a “disaster” of urban sprawl through his insistence on southern centres of housing expansion instead of regeneration of cities in the North.⁴⁸

CONCLUSION

The Government faces a profoundly challenging time if it tries to alter the housing market quickly. It cannot, after all, unmake existing variable rate mortgages. It could, very easily, spend a generation enacting changes in legislation to make the UK housing market secure against the rise of interest rate control by the European Central Bank. The quickest route to a different market is more supply: freedom for local councils to purchase property on the open market or to build new homes especially for single people. This would secure far more of public spending at local level than New Labour wants, since they are unlikely to wish to escape the legacy of Thatcherism – which they have done so much to continue.

Our main worry about these issues is that the government will seek to 'stabilise' the impact of interest rate changes on the housing market by fixing long-term interest rates for mortgages along the lines of the US model. This would be done because the housing market is causing the UK economy to be different from the European ones, which are not so affected by interest rate changes via housing because of the lower proportion of home ownership in some countries. However, it seems part of an unhealthy move towards bottling up economic fluctuations (which are inevitable under contemporary neo-liberal capitalism) by removing tools for managing such fluctuations which are necessary to protect people, in this case because of the impact of interest rates on housing in the UK. This single sectoral example provides ample evidence that it is highly undesirable to have continent-wide interest rates managed in one place when the European Central Bank does not have the resources or policy competences to run an effective EU economic policy. Given the many problems associated with the Common Agricultural Policy and Common Fisheries Policy, it is highly unlikely that EU states would surrender powers to the EU or the European Central Bank to make such management meaningful, keeping the Bank focussed upon its increasingly unpopular interest rate and Government deficit control agendas which may well undermine its long-term authority.

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⁴⁸ Ben Leapman – Rogers: Prescott plan “a disaster” for cities – *Evening Standard*, 30th April 2003. This was essentially a follow up to a *Guardian* supplement – 30th October 2002 - just before Prescott’s Urban Summit speech: *Cities Reborn: the challenge of an urban renaissance*.