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### **HM Treasury review of housing supply in the UK**

CPRE London is the London Branch of the Campaign to Protect Rural England. I am aware that our national office staff have already contributed to your work in connection with the above review in various ways. CPRE London wishes to make an additional contribution in order to emphasise a small number of key points that we feel deserve particular attention in your review.

In the context of the general debate over house prices in the UK, there would appear often to be an assumption that housing supply should be increased to such an extent that current levels of demand - especially in the south east of England - are met to a substantially greater degree than at present. Moreover, there also appears to be an assumption that attempting to do so would necessarily be a good thing. I note that the terms of reference of your review include *'the interaction of [factors affecting housing supply] with the Government's sustainable development objectives'*, and we are pleased that that is the case. I discuss below how that consideration - and consideration of purely economic considerations - may militate against a policy of attempting to saturate the housing market.

The Chancellor of the Exchequer has recently expressed concern that volatility in the UK housing market is acting as a barrier to the UK entering the single European currency, and the Government has recently suggested that that volatility could be addressed by more fully meeting housing demand with supply. For example, the recently published *Creating Sustainable Communities: Making it happen* states that:

*'Increasing housing supply is now a national priority, essential to reducing housing market volatility.'* (page 3)

However, the question of the *volatility per se* of the UK housing market - rapid fluctuations in prices - is distinct from that of the *general level* of house prices. While the relationship between supply and demand may have a significant bearing on general levels, fluctuations in prices are caused principally by changes in mortgage interest rates. No level of market saturation would remove the market's response to interest rate changes until prices were so low that the need to borrow money to purchase a house became a rarity. From what I have read, the *general level* of house prices in the UK - or even in the south east of England - does not appear to have been identified by the Chancellor as a barrier to entry to the Euro.

If an approach were to be advocated by the Government to attempt to reduce prices through very much more greatly matching current demand with supply, one needs to ask how many dwellings it is supposed would be required in order to achieve that, and, most importantly, what are the land-take and other policy implications of providing that number of new houses. Surely, the Government could not agree to such a policy without making an objective and comprehensive assessment of its implications, including the amount of land that would be required and the acceptability of that in the face of its commitment to protecting the quality of the environment. An assessment would also be required in respect of the cost to the public purse of providing the associated transport and social infrastructure. Moreover, because price reductions would presumably increase demand significantly, such an approach would be bound to require very much more than one additional dwelling per projected additional household in the south east under current assumptions about the rate of household formation (especially assumptions about net inward migration). Irrespective of these arguments, in order to avoid a major collapse in the south east's housing market in due course, the Government needs to look ahead to days when interest rates are higher and demand inevitably falls before deciding the extent to which current levels of demand ought to be met.

There is also a wider question concerning the Government's objective of bringing about a more even pattern of economic growth across the UK regions. In view of that commitment, there must be very significant doubt that it would be an appropriate long term policy direction for the Government to take to further encourage the movement of skilled labour into the south east of England and away from the rest of the UK given that that would be likely to undermine the prospects for economic growth of the latter. A policy of meeting fully housing demand in the south east would surely further encourage businesses and skilled labour to remain in or re-locate there. That would contribute to congestion, urban sprawl and economic over-heating in the south east, whilst at the same time not necessarily meeting unemployed people's employment needs there and undermining regeneration elsewhere.

Finally the Government should not overlook the value of environmental quality in sustaining the economic buoyancy of the south east of England in the longer term. Landscape quality and the availability of green open space within reach of the urban centres (especially London) are factors which make the area attractive to skilled individuals - including business executives and entrepreneurs - that the country's economic prospects depend on. The South East England Development Agency recognises the importance of this issue. It is fairly widely argued, however, that the South East region has reached the limits of its developability and that some areas have for some time now been suffering an exodus of business and skilled people who are no longer prepared to tolerate the congestion, strain on public services and general loss of quality of life caused by overcrowding. A policy that had the effect of further concentrating the economy of the UK into south-eastern England would lead sooner or later to further significant and widespread damage to quality of life and eventually, in all probability, to further abandonment and general decay. Under that scenario, there can be no guarantee that the economic prosperity of the south east would simply be transferred to elsewhere in the UK.

We ask you to consider these issues in the course of your review, and we would be pleased to discuss them further with you if that would be helpful.

Yours sincerely,

**Nigel Kersey**  
**(Director)**