

Let us build expensive houses

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In Britain new houses and flats are small and cheaply built, but expensive to buy. Why does a wealthy country like Britain build to such poor standards? How can we get larger, better built and more sustainable new houses and flats?

There's no doubt that new housing in Britain could be miles better than it is, but Tom Karen's Comment in the March issue [of *Blueprint*] completely missed what seems to me to be the fundamental reason why poor quality housing is being built. Houses are not expensive because of the greed of developers, nor because the building industry is archaic, but because Britain is a wealthy country. If we could find ways of building houses and flats more cheaply they would still cost much the same to buy. The real disaster in British housing is that too little is spent on construction, not too much. The government should definitely legislate to make developers spend more on building houses and flats.

Housing is important to people. Consumers compete for houses or flats and bid each other up to their limit of their affordability, and then they stop bidding – that sets the house price. The wealthiest people get the most desirable houses, the not-quite-so-wealthy get the not-quite-so-desirable houses, and so on – regardless of how good or bad the houses are according to any objective criteria. Houses are cheap in depressions, but that only reflects consumers' lower affordability thresholds – fewer people are in the market so the bidding stops at a lower price. A depression would reduce house prices, but who wants a depression? It's fantasy to think that housing will ever be cheap in a strong economy.

Why does a wealthy society like ours produce cheaply built houses? Because of the intense competition for development sites. Developers compete for land and the highest bidder wins, of course. Since the selling price for houses is set by consumers' affordability and is the same for all developers, the developer who bids most for the land is the one who works with the smallest margin between land purchase price and house selling price. Therefore the developer who can build the cheapest possible houses gets the land, his cheap houses get built, and consumers have to buy them – at the limit of their affordability. Another developer might have spent $x\%$ extra money on building and produced better houses, which consumers would have preferred, but that $x\%$ extra money has actually gone into the winning bid for the land.

Suppose that an obligation is placed on all developers which requires them to spend more on construction, to meet new Building Regulations, for example. They can't sell house for any more because consumers have already bid themselves up to the limit, so the amount the most aggressive developer can bid for the land has to drop. There's plenty of scope for squeezing land values. Well over half the value of a house now goes into land. In the 1930s land accounted for about a fifth of the value of new semi-d's in the sprawling suburbs. The cause-and-effect mechanism is crucial: high houses prices are not caused by expensive land; on the contrary, it is high houses prices that cause land to be expensive.

The market mechanism operates within a public policy environment that simultaneously sets ambitious house-building targets (by number of units) while severely restricting the amount of land available for development. The result is housing in which as many units as possible are built as cheaply as possible on as little land as possible, preferably on former industrial sites. It's a grim picture, especially when you think that the demolition rate for British housing is less than 0.1% per year, so we could be stuck with these cheap and minimal housing units for hundreds of years.

Happily the solution also lies within the scope of public policy. If government introduced regulations requiring all new housing units to be bigger, better built, more sustainable and therefore more expensive to construct, then even the most aggressive developer would have to lower his bid for development land, and would provide consumers with better houses at the same price – the price, as ever, being the limit of affordability.

Architects get depressed by the styling of developer housing, but that doesn't really matter. The diffusion of styles from high-class exemplars to mass-market adoption is slow and erratic, but it happens. Sure as anything there's no need for public agencies to interfere in matters of taste. But when it comes to the size, functionality and sustainability of new housing there is a compelling case for government action for the benefit of society. Britain can afford, and should get, expensively built houses, not cheaply built houses.

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