

A Comparison of Regional Houses Prices.

In this section I aim to highlight the regional house prices disparities displayed in the United Kingdom by contrasting analogous properties, one in a more prosperous area; the South East and one in a more deprevated area; the North east. I have chosen to use the district of Grimsby as my example in the North East and Hove to contrast it with.

Postal District	1997	2002	2005	2006	2007
Hove	£69,481	£186,282	£204,801	£251,037	£294,914

Postal District	1997	2002	2005	2006	2007
Grimsby	£53,664	£37,524	£65,512	£73,003	£79,767

This shows the relative growth of house prices in the respective reasons. It is clear from this source that there is a significant difference in the rates of growth, and that these dissimilarities in price are actually increasing, so the problem is getting worse.

Holme Farm Close, Great Coates, Grimsby, £132,950

House - Detached
Bedrooms: 3
Parking: Garage
Garden: Garden
Property description



A spacious and well presented detached home in a quiet cul de sac within the popular village of Great Coates. An ideal home for a young family it is situated in a well regarded school catchment area. Accommodation:- Entrance Hall, Cloakroom, Lounge, Kitchen Diner, Three Bedrooms, Master En-suite, Bathroom, Front and Rear Gardens, Gas Central Heating, Double Glazing, Detached Garage and Driveway.

Church Road, Hove, East Sussex. £359,950

House - Detached
Bedrooms: 3
Bathrooms: 1
Reception rooms: 1
Garage.

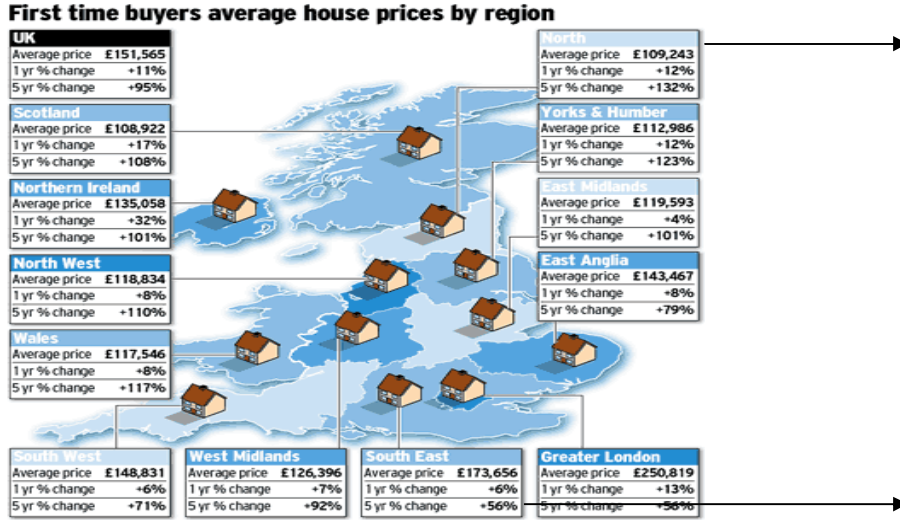


Property description

*A Three Bedroom Detached House Built Approx Fifty Years Ago Which In Our Opinion Is Offered For Sale In Good Decorative Order & Benefits From: Upvc Leaded Light Double Glazed Units * Gas Fired Central Heating * Cloakroom * Modern Kitchen/Breakfast Room 17ft x 12ft * Modern Bathroom * Private Driveway To Garage *ROOM DETAILS: Part Glazed Front Door Entrance Hall Cloakroom Lounge 17ft x 11ft Kitchen/Breakfast Room 17ft x 11ft Landing Bedroom 1 17ft x 11ft Bedroom 2 11ft x 11ft Bedroom 3 11ft x 7ft Bathroom Outside Private Driveway To A Detached Double Garage*

As demonstrated, for a 3 bedroom house in the south, you may have to pay almost three times as much as the north for a relatively similar property.

As the next fig. shows it is not just for 3 bedroom family houses that there is a large gap in value between north and south it is the whole housing market.

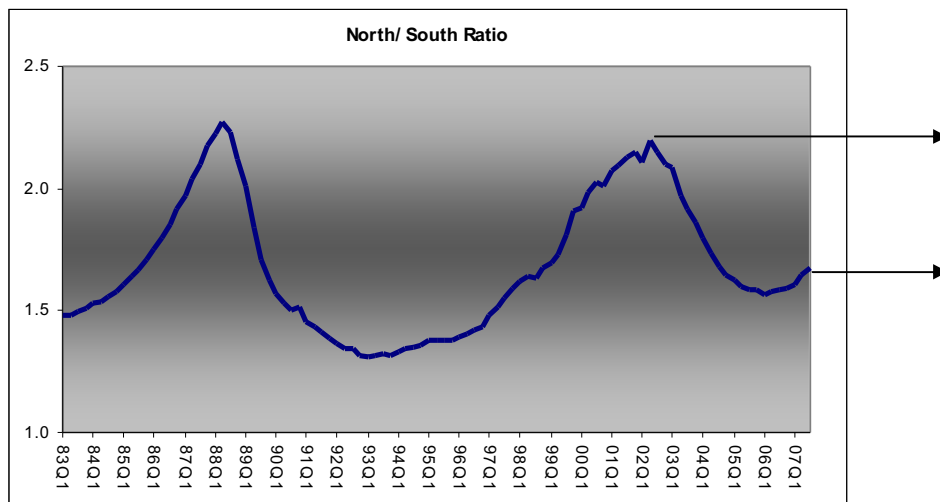


The most up to date figures only further support the evidence of the north/south divide, with in past year the south experiencing double figure growth in price of 13.77% compared to the north seeing less than half of that 5.2%.

The north/south divide further widened in quarter three of this year; the average house price in the south £265,921, 68% higher than the average house price in the north of £158,636.

Although government figures do show that even though the north/south divide is still very large and despite recent events the gap in house prices has in fact been narrowing over the past five years.

Chart: Ratio of House Prices in North to South



Although we can still see the gap is very substantial, and starting to rise again despite houses growing in price their rate at 5.4% is still around half the national average of 10.7%

So what are the reasons for such different prices reflected in alternative geographical locations of the UK? One major reason for the south's sizeable rise in house prices is very high demand, in order to fully understand the high demand in the south; we must first look at the large increase in demand over the whole market.

House Price Determination in the short run Equilibrium price is determined where demand equals supply. If demand changes (i.e. the demand curve shifts as in figure 6 where demand increases) the impact is almost entirely on price. As incomes, interest rates and demographic factors change prices will also change – often by large amounts because of the relative inelasticity of demand. As these factors can themselves vary quite quickly the result is that the market price can be very volatile. Equally changes in government policy can have very large impacts.

The effects of expectations, Expectations of changes in fundamental variables, including policy change, impact heavily on house prices. If in addition demand depends upon the observed change in price, or especially the rate of change in price, the effect can be to generate 'overshooting'. This process will ultimately be reversed – usually by a sudden change in expectations with respect to more fundamental variables

There tends to be asymmetry in response, in that upward changes lead to further changes in price and rapid increases in the numbers of transactions. Downward changes usually result mainly in reductions in transactions - but this makes it difficult for those who are in debt problems to sell themselves out of trouble. Problems of negative equity and possessions also grow.

Over the past decade there has been a huge increase in demand in the overall UK housing market; this is in part down to the following reasons.

Currently there are low interest rates in the UK so it follows that there are going to be lower mortgage repayments. This greatly increases consumer confidence and also makes it more likely for people, first-time buyers to demand housing. People are not going to buy or move house if they know there will be very large mortgage repayments it wouldn't make sense.

Following on from this banks are now lending more money than ever before, up to four times people's yearly income. This is due to the reserve ratio reflecting low interest rates. Increased availability of loans and greater amounts being offered have largely increased consumers buying power, enabling them to have greater demand on the housing market. Adding to these low repayments rates due to low interest rate increase the likelihood of people acquiring loans also.

The expectation of further rises in house prices has caused an increase in speculative buying, this has also added to demand. People who were considering buying a property would employ a 'now rather than later' mindset because there is potential financial harm in waiting if house prices are predicted to rise. These predicted rises in prices and a booming house market helped to spark massive enhancements in the buy to let housing market because people have seen that a lot of money can be made in the UK housing market with property development really coming into fashion. People can re-mortgage an existing property due to large increases in value and with the added money invest in a second property, employ a buy to let scheme. Then proceed to rent the second property out so that the rent pays for the mortgage, rent may also give a small additional income and as house prices rise, people make substantial profit as their equity in the property rises. This coming into fashion has also led to the demand for housing growing.

Another economic factor contributing to the rise in demand is unemployment levels, there are at their lowest levels for over 28 years, further increasing consumer confidence in the economy and making people more likely to spend in the housing market.

There are also cultural factors involved for example there are a lot more single households in Britain than in the past, reflecting higher divorce rates, this has added to the already high demand. Women now are a lot more independent and have a preference for living alone, this would lead to an increase in the amount of people in the country looking for a house.

But all the above causes would affect the whole country, so why is it that the demand in the south is so much higher than the demand in the north; causing regional house disparities? Why is the population moving south and drifting into the bottom corner of the UK? Why is demand so much higher in the south than the north?

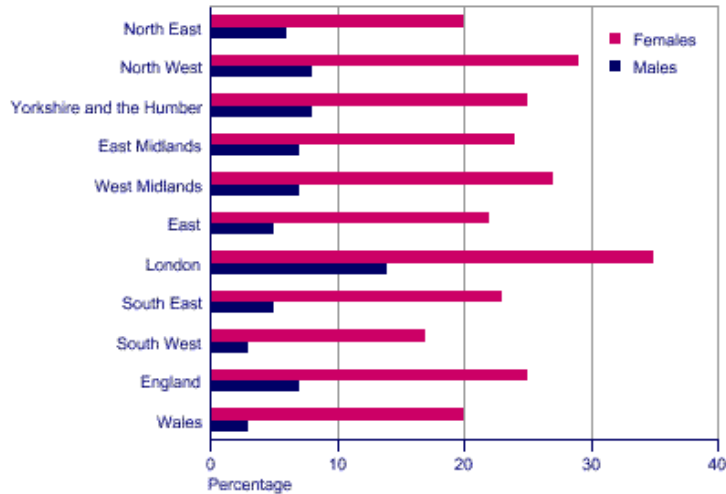
Reasons for higher demand in the housing market in the South.

There are many contributing factors to why house prices in the south are substantially higher than the north. The main reason is that there is a higher demand for housing in the south and a very inelastic supply. But why does the whole country want to live in the south east?

One main factor is the standard of life in the south seems to be higher than the north for example the infant mortality rate in the north east for 2005 was 4.5 compared to 3.9 for the south east. Education is a big decider in where families move to; parents are more likely to move to a place with a good reputation for children gaining qualifications. The proportion of people of working age qualified to GCE a level equivalent or higher in the north east was around 47% lower than the overall UK average of 51% compared the south which has 54%; higher than the overall average. The south has the joint lowest percentage of working age people without any qualifications at 9.5 % and more than one 5th of people are educated to a degree level. The next point follows on logically as people are more educated in the south employers and firms are more inclined to start their businesses there so that they can benefit from the skilled workers without having to spend money on re training schemes, so the influx of firms to where the skilled workers are means there is an abundance of jobs in the south and therefore low unemployment rates. In 2006 the employment rate for people of working age in the south east was 79% the highest throughout the UK. This works both ways due to the decline of many industrialized industries a high percentage of the north's work force have been left unskilled, this has in turn made the north seem a very unattractive place for business to relocate to due to a shortage of skilled workers: thus the north had an employment rate of 71.7% for 2006 one of the lowest in the UK. A knock on effect only making matters worse is that unemployment affects the local economy if less people have a job then less people are going to be spending money in the local economy meaning that local businesses will also suffer.

Property prices rise in areas where employment opportunities expand the fastest. People move to where the work is. And today the most common form of migration is not from the North to London but from Warsaw to London. In the first 18 months since the expansion of the EU in May 2004, 329,000 immigrant workers have registered in Britain. This is not the only factor leading to increased household formation in the UK. The average size of a household is falling. The elderly are living longer, and couples are starting families later, so there are more households without children. High divorce and separation rates mean more individuals living on their own. At current assumed rates of household formation there is already excess demand for housing in England. Back in 2003 the Government projected that at prevailing rates of house building there could be over 100,000 frustrated potential households by this year. But in the light of higher than expected migration this deficit could be over 200,000. The North-South house price divide will widen as immigration, higher household formation and supply shortages underpin the market in high employment growth areas.

It is often said that with unemployment comes crime this is also reflected within the statistics.



As shown by the above diagram people tend to feel safer in the south east than in the north, this is going to make people more likely to move to the south east therefore creating an increase in the demand for housing.

Also for the working population, the South East seems more attractive with the average earnings for full time employees on adult rates in the north east were £440.20 for males and £335.0 this is 10 and 13 percent below the national average, contrasted with the south where the average male on full time pay will earn £546.80 and for females £410.50 these incomes are 12 and 6 percent above the national average. People are going to prefer to live in a place where they can earn decent money. These above average incomes allow people to spend more money in the local economy helping local businesses in the south to be more prosperous than those in the north. (Although it should be noted that the living cost does also reflect the higher incomes with it being more expensive to live in the south.)

Brighton and hove is a more convenient location for commuters to travel to London, many people who conduct there business in London see Brighton as the perfect place to live; workers can avoid the hustle and bustle of the capital, and commute everyday without major travelling. This is not available to people who live in the north.

The housing quality in the south is of a higher standard, this is an effect of Margret Thatcher's buy to let scheme. This involved the building and selling of many council properties and since these were subsequently privately owned they have been kept within families and not modernised or rebuilt by the government. As a result of this the existing housing stock in the south is of a higher quality than that of the north making a more attractive place to live or buy a house to rent this also increases the demand for properties in the south.

Key statistics

The South East

The North

		Population, 2005 ² (thousands)	2,558
		Percentage aged under 16 ²	18.6
Population, 2005 ² (thousands)	8,164	Percentage pension age and over ²	19.5
Percentage aged under 16 ²	19.3	Standardised Mortality Ratio (UK=100), 2005	113
Percentage pension age and over ²	19.3	Infant mortality rate, ³ 2005	4.5
Standardised Mortality Ratio (UK=100), 2005	93	Percentage of pupils achieving 5 or more grades A*-C at GCSE level or equivalent, 2005/06	57.4
Infant mortality rate, ³ 2005	3.9	Economic activity rate ⁴ , second quarter 2006 (percentages)	76.5
Percentage of pupils achieving 5 or more grades A*-C at GCSE level or equivalent, 2005/06	59.7	Employment rate ⁴ , second quarter 2006 (percentages)	71.7
Economic activity rate ⁴ , second quarter 2006 (percentages)	82.9	Unemployment rate ⁴ , second quarter 2006 (percentages)	6.1
Employment rate ⁴ , second quarter 2006 (percentages)	79.0	Median gross weekly earnings: males in full-time employment, April 2006 (£)	440.2
Unemployment rate ⁴ , second quarter 2006 (percentages)	4.7	Median gross weekly earnings: females in full-time employment, April 2006 (£)	335.5
Median gross weekly earnings: males in full-time employment, April 2006 (£)	546.8	Gross value added, 2005 (£ billion)	35.9
Median gross weekly earnings: females in full-time employment, April 2006 (£)	410.5	Gross value added per head index, 2005 (UK=100)	79.5
Gross value added, 2005 (£ billion)	166.3	Total business sites ⁵ , March 2004 (thousands)	76.7
Gross value added per head index, 2005 (UK=100)	115.3	Average dwelling price ¹ , 2005 (£ thousands)	132
Total business sites ⁵ , March 2004 (thousands)	390.9	Motor cars currently licensed, ^{1,6} 2005 (thousands)	1,006
Average dwelling price ¹ , 2005 (£ thousands)	234	Fatal and serious accidents on roads, ¹ 2004 (rates per 100,000 population)	41.1
Motor cars currently licensed, ^{1,6} 2005 (thousands)	4,344	Recorded crime rate ¹ , 2005/06 (recorded offences per 100,000 population)	10,100
Fatal and serious accidents on roads, ¹ 2004 (rates per 100,000 population)	49.8	Average gross weekly household income, 2003/04 - 2005/06 ⁷ (£)	455
Recorded crime rate ¹ , 2005/06 (recorded offences per 100,000 population)	8,984	Average weekly household expenditure, 2003/04 - 2005/06 ⁷ (£)	
Average gross weekly household income, 2003/04 - 2005/06 ⁷ (£)	687		
Average weekly household expenditure, 2003/04 - 2005/06 ⁷ (£)	481.00		

The fig. above is related to the key statistics I have talked about concerning the relative standards of living, in the north and the South East respectively. A contributing factor to the South's higher level of demand for housing is its reputation for vibrancy, this I deem is a result of other factors for example a flourishing local economy, excellent reputation for high standards of education, attracting high numbers of young people and students. This considered it is still a major factor involved when people are choosing where to live.

The Price Elasticity of Demand

$$\text{PED} = \frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}}$$

When the price of a good falls, the quantity consumer's demand of the good typically rises; if it costs less, consumers buy more. Price elasticity of demand measures the responsiveness of a change in quantity demanded for a good or service to a change in price. Mathematically, the PED is the ratio of the relative (or percent) change in quantity demanded to the relative change in price.

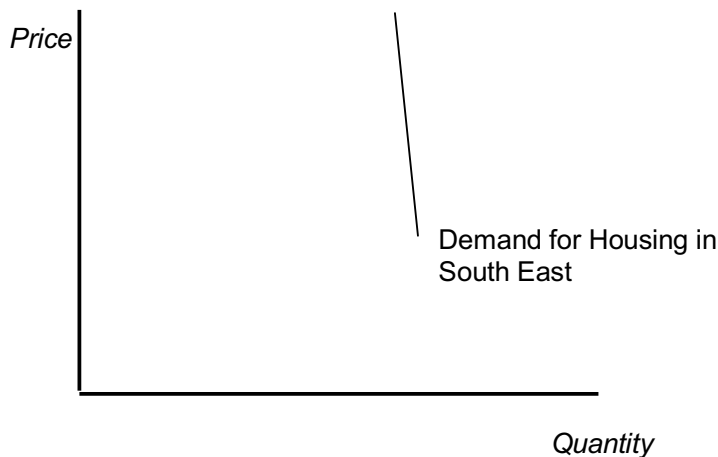
Levels of Price Elasticity of Demand:

- Inelastic:- = between 0 and 1
- Unitary:- = 1
- Elastic:- = between 1 and infinity
- Perfectly Inelastic = 0
- Perfectly Elastic:- = Infinity

Determinants of price elasticity of demand

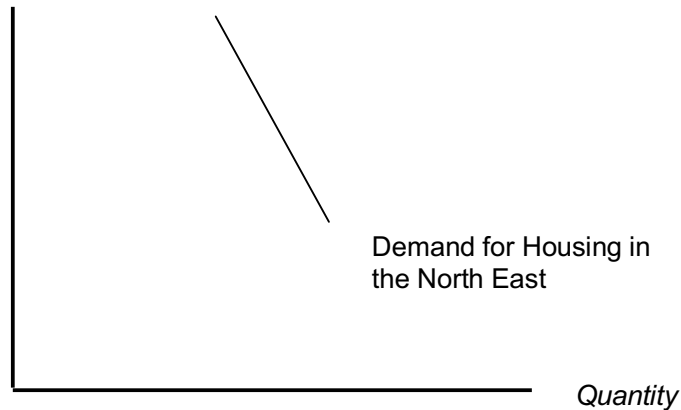
1. Existence of substitutes—the closer the substitutes for a particular commodity, the greater will be its price elasticity of demand
2. Degree of necessity: If the good is a necessity item then the demand is unlikely to change for a given change in price. This implies that necessity goods have inelastic price elasticity's of demand.

When applied to property it is clear that there are few viable substitutes short of living in a mobile home, there is little else one can do. The degree of necessity of housing also points toward a extremely inelastic demand curve in the overall housing market. However Due to the south being extremely popular with very high levels of demand and low levels of supply, people are going to be willing to pay more for a house than anywhere else this means that there will be a less than proportionate fall in demand as a result from an increase in price Therefore the demand curve for housing in the South East is very negative. In other words, the formula will lead to a number closer to 0, not 1.



The elasticity of demand for the North East however will be slightly different, although the general determinants of price elasticity of demand mean that, yes, it will still be inelastic. But it will be less inelastic than that of the South East because it is less popular, and housing in the south could be seen as a rival competitor therefore people are not going to want to pay as much for properties in the north because they would rather live in the south. Therefore if there is a rise in price then demand will be likely to decrease more than it would in the South East

Price



What is proposed by the demand curves is that price can continue to rise and demand will still be high, especially in the south this has been reflected by the housing market over the last decade and presents a serious problem because it seems that there is little to stop prices rising because people will not curb their demand for housing due to high prices.

Price elasticity of supply

The relative supply of housing in the north east and south east respectively also greatly affects the price

$$PES = \frac{\% \text{Change in Quantity Supplied}}{\% \text{Change in Price}}$$

There are a few determinants of elasticity of supply that must be taken into account when considering the elasticity of supply for housing

1. The time period involved in the production process.
2. The amount of spare capacity within a region
3. The availability of spare stocks.

The Availability of spare stocks

Due to very high levels of demand for housing in the south and reasons discussed previously spare housing stocks in the south east are practically non-existent helping the supply curve to

be very in elastic however Empty homes account for at least 3 per cent dwellings in 15 local authorities, almost double the national average.

This equates to nearly 290,000 empty private homes in England - based on data from the Department for Communities & Local Government (DCLG) and Halifax's own housing database. Fourteen of the fifteen local authorities (LAs) with a high proportion of empty private homes are outside southern England and nine in the North West. This stat suggests that there are in fact spare stocks in the north and this may contribute to there supply curve being slightly more elastic.

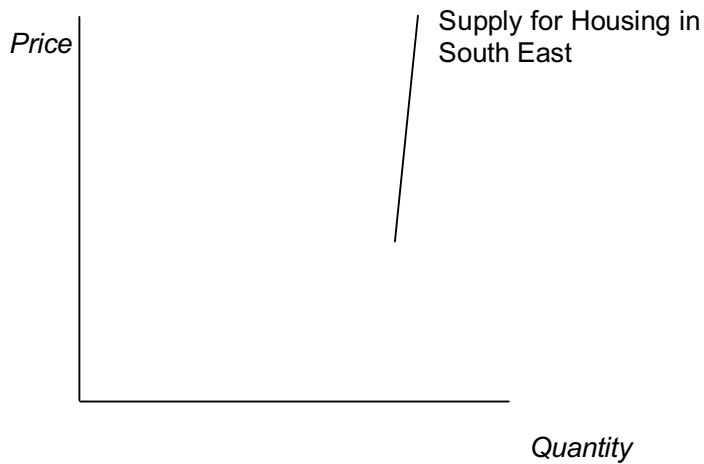
Spare Capacity

The South East is virtually at full capacity, and most new build proposals are either turned down or take a long time to be put into motion, however there is spare capacity in the north with many proposals aimed at brown fill locations.

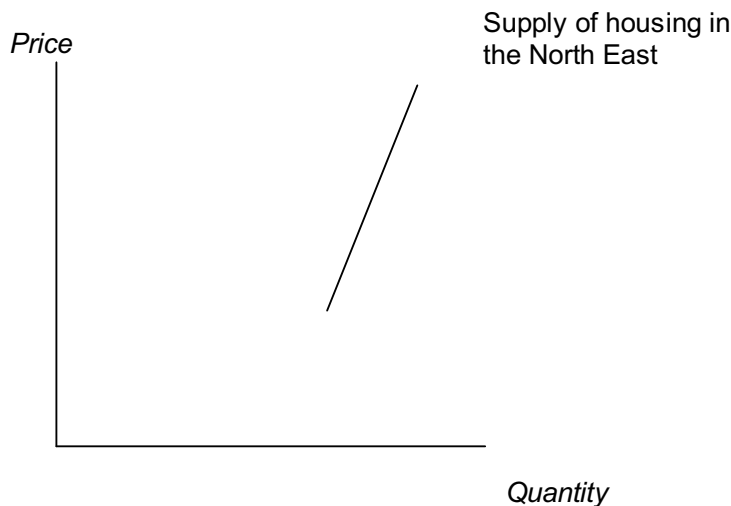
The Time Period

To build enough houses to have any considerable affect on the supply of housing for example a housing estate can take in excess of five years.

From these three factors we can infer that there will be a very Inelastic Supply Curve for the South East. A run through of the formula would indicate an outcome of close to 0.



And due to the above determinants we can deduce that the supply curve for housing in North East will be inelastic, but less inelastic than that of the South East.



The income elasticity of demand

$$\text{IED} = \frac{\text{The \% change in quantity demand}}{\text{The \% in incomes}}$$

1. Normal Good: A normal good exists if an increase in income causes an increase in demand. This is seen as a positive value for the income elasticity of demand, or a coefficient of elasticity of $N > 0$.
2. Inferior Good: An inferior good exists if an increase in income causes a decrease in demand. This is seen as a negative value for the income elasticity of demand, or a coefficient of elasticity of $N < 0$.
3. Superior Good: A superior good exists if a relatively small increase in income causes a relatively large increase in demand. This is seen as a positive value for the income elasticity of demand greater than 1, or a coefficient of elasticity of $N > 1$.

Alternative	Coefficient (N)
Normal Good	$N > 0$
Inferior Good	$N < 0$
Superior Good	$N > 1$

Holding constant the price of housing and related goods, it is possible to examine the response in quantity demanded to a change in incomes. It has been noted that due to the mortgage system that we use in this country income is a major determinant in the short run. The fact that mortgage companies are lending based on peoples incomes it logically follows that the higher the income the more likely you are going to be able to afford a property. I have already shown that people in the south east are earning more therefore they are able to borrow more, having greater buying power, leaving the people in the north unable to climb up the ladder.

Most goods are 'normal' goods – i.e. if income (Y) increases the demand for the good increases. Many are "superior" goods – i.e. if income increases by 1% demand increases by more than 1%. Some are inferior – as income increases, demand declines.

Because the decision to consume housing is irregular, the decision-maker usually takes account of 'permanent' rather than current income, especially in the case of owner-occupation. Problems in measuring income elasticity for housing include: slow adjustment; rationing, and imperfect finance markets so that people cannot adjust quantity demanded fully to expected long-term income; different dwelling attributes have different income elasticity's.

The Most important distinction is between tenants and owner-occupiers. Tenants buy consumption attributes; owner-occupiers buy these but also buying assets, control etc. Evidence that in the UK income elasticity < 1 , perhaps 0.6 for tenants, 0.7+ for owner-occupiers.

Some basic attributes such as structure, number of rooms and basic amenities, have relatively low income elasticity's. Additional attributes (more luxurious?) such as external space, central heating appear to have higher income elasticity's..

The Housing model

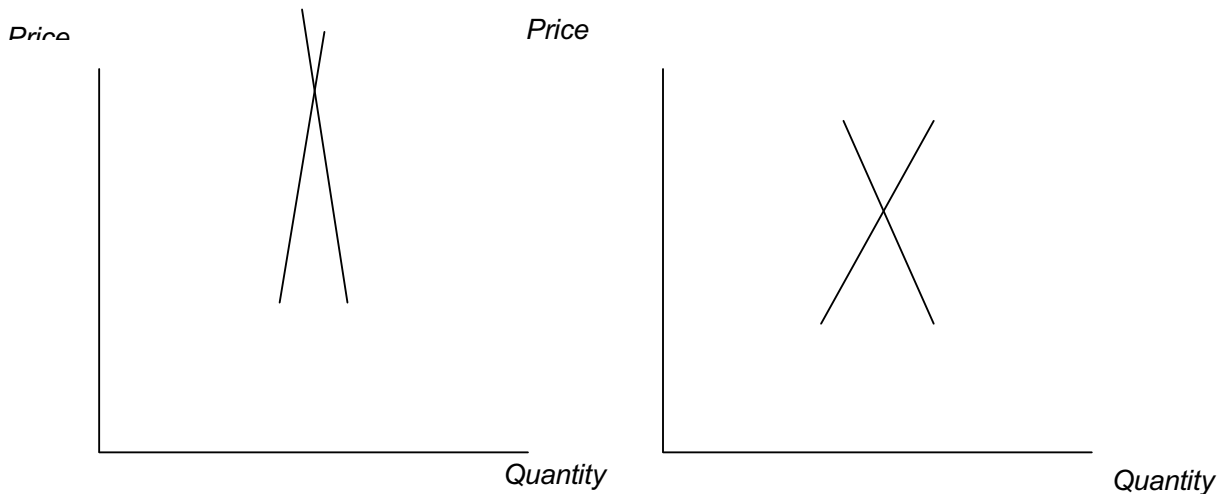
After working out the apparent respective elasticity's of supply and demand for the South East and the North east we can bring the two together and illustrate the house price disparities through in the diagrammatic form of the regional markets for housing. This will provide visual evidence for regional disparities

Housing has some very particular characteristics...

What follows is a list of some of the very particular features of housing that complicates any

- Economic analysis of the housing market.
- Having a roof over one's head is a necessary good.
- A house is also a home: an emotional as well as a financial investment.
- Housing absorbs a large proportion of individual/family income or wealth.
- Houses tend to be long-term investments – they are very infrequent purchases.
- A house is a locationally specific or positional good (only houseboats, caravans, tents and mobile homes can be moved).
- Personal relationships and trends in family/social behaviour influence individual sale and purchase decisions.
- Housing supply tends to adjust very slowly to increased demand, whilst demand has a
- Tendency to overshoot.
- Housing is heterogeneous – the term 'housing' covers a wide variety of types of property
- And tenure and demand for each responds to varying trends, for example, in taste, demographics.
- Housing is both consumed, and bought as an asset: owner-occupiers consume property (like tenants), but are also buying assets.
- Both house builders and house owners are dependent on finance markets (which may be far from perfect).
- House prices are negotiated.

These produce a complex set of market dynamics these characteristics raise a wealth of issues, housing economists all emphasise the complexity of the housing market and this complexity means that it does not lend itself to straightforward modelling.



Problems for the individual

First Time buyers

It is becoming increasingly difficult for first time buyers to be able to afford to buy a property in London or the South East. Due to low wages often attained by people early in their career not being able to match the sky-high mortgage repayments. This problem is only likely to worsen; in Sussex the average yearly wage increase of 25-30 year olds is 3%. This is contrasted by the property market rising on average 20% in the same time period. This could mean that within a decade it could be virtually impossible for a first time buyer to buy a property in the South East of England.

The Wealth Effect

Large increases in house prices in the south east have given homeowners a great deal of equity dramatically increasing their wealth as a result. When people perceive themselves to be richer they often increase their consumption, this in turn means there is an increase in consumer spending in the economy having a positive effect on local businesses and traders. This will result in relatively large increases in the standard of living. However these large increases in standard of living are not shared out equally across the country because house prices are not rising at the same rate in parts of the north therefore people do not feel as much of an increase in equity and the size of the wealth effect is not as substantial therefore the rises in the standard of living are only small compared to the south east meaning the gains of a rise in house prices are not shared out equally perpetuating the north south divide.

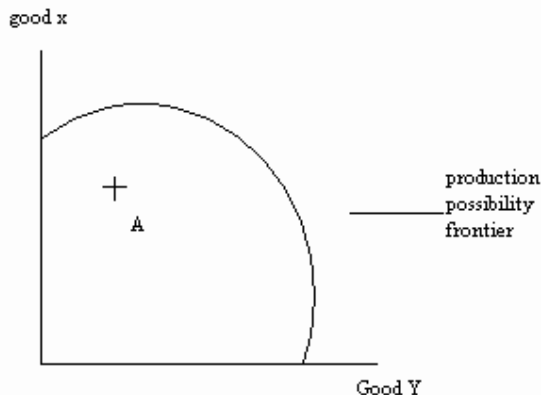
Homelessness

The scarcity of affordable homes in the prosperous south has resulted in rising homelessness. The number of people forced to live in temporary housing has rocketed to 100,000. For the first time since records began severe overcrowding of homes is on the increase. At the same time soaring house prices have prompted families to camp for weeks outside discounted former Ministry of Defense homes to secure a bargain.

Problems for the firm

Unfilled Vacancies

Firms operating in the south east of England are finding it increasingly hard to attract enough workers; this is going to have an adverse effect on the output. It is most likely that most of the unfilled vacancies are for mainly unskilled jobs, as the wages paid by these particular roles are sufficient to support the costs of living in the south east.

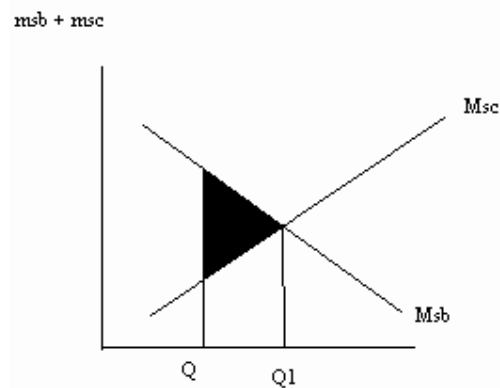


Labour Market Failure

Labour market failure occurs when an economy doesn't have its workers in the right place at the right time. The current situation is that unemployment levels are relatively high in the north, indicating there is a surplus of workers in relation to jobs. But there are low unemployment levels in the south; in fact there is a growing notion that businesses are finding it increasingly hard to acquire sufficient workers. This labour market failure. The result of this is the country not being as efficient as is possible. This could affect our competitiveness in the world market and have negative effects on our balance of payments. Labour market failure also occurs due to the immobility of labour; as workers in the north can seldom afford to move to the south due to the higher house prices, and workers from the south have no incentive to move to the north as the wage rate is lower.

Under Provision of a Merit Good

As housing is a merit good that provides those who consume it with positive externalities, over and beyond those that they may recognise. Due to the status of housing as a merit good the under provision of it creates marginal social costs



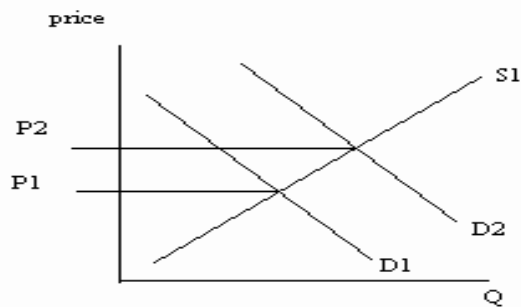
At Q housing is under provided, this causes the shaded triangle, this triangle represents the welfare lost due to under provision.

Solutions

The home starter initiative (equity loans)

The 'HIS' is a government scheme aimed to help the problem of the shortage of key sector public workers in the south east caused by their inability to find affordable housing in popular areas. There are clear regulations to how the scheme works; one must be public sector worker looking to buy a small house or flat in an area where there is a shortage of workers in your chosen profession. The 'HIS' is a loan from the government that does not have to be paid back monthly. The way in which the amount is calculated is the government will give you 10% of the value of your flat to give to help you buy it and in return will own a 10% equity in your residents, which can be paid upon sale.

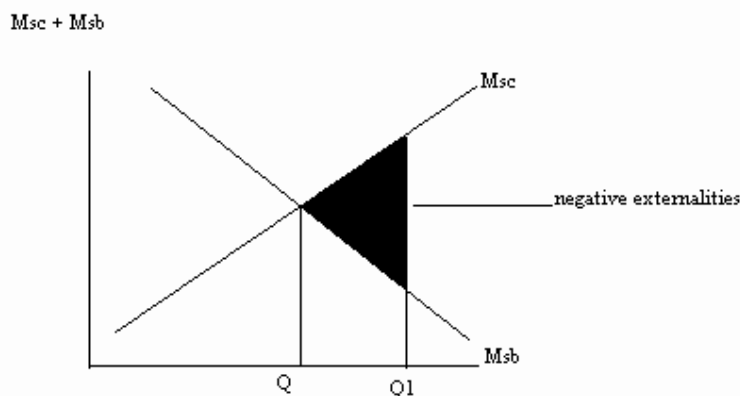
However there are problems, the main issue is that due to government regulations only a small amount of people actually qualify for the scheme giving it minimal effect, therefore the governments expenditure has no real change. If the government allowed more people to be eligible this could also cause a paradox because it would mean there would be more people able to afford a flat in Brighton, increasing the demand which in turn could actually lead to an increase in the price of flats.



22billion house building programme

the government is planning to build 200,000 new homes by 2016 in the south east regions. Accompanied by a £5 billion regeneration project on declining areas of the north. However 'no hope areas' would be demolished and compensation delegated to those forced to leave. There would be an increase in greenbelt land and new laws coercing landlords to rent out empty properties.

This scheme also has its problems, it is fairly obvious that £22bn is a very vast sum of money; this has its opportunity costs attached to it. But many say that this sum will no where near be enough because the plans have not taken into account the needs that come with a large influx of housing and people for example the building of new schools, new hospitals, and practical infrastructure needed for large communities. Another problem that may arise from this solution is overcrowding and over supply.



The equilibrium market supply is at Q but when the house building programme is implemented and the supply extends to Q1 marginal social costs exceed marginal social benefits and the shaded area is created.

There have also been big objections from environmentalists saying that the social costs of a build on this kind of scale will be too great and outweigh the benefits that are potentially going to be gained.

Other solutions

Some other solutions put forward include the implementation of stricter borrowing limits based on disposable income, this would cut the amount of people with demand for more expensive housing in the south east which may in turn bring the prices down, however this would be politically unpopular and is an unrealistic solution.

To stop house developers making excessive profits and the price being passed on to the consumer it has been suggested due to the positive externalities caused by housing that price of new housing should be vigorously regulated and restricted to cost of the build plus a defined amount. This would therefore kill speculation and force the prices down. However this would be likely to disincentivise developers and as private house building is already underprovided this could have adverse effects.

A more social solution is for the government to take fiscal action to encourage families to cohabit with the aim of reducing single parent families; however this could be very costly to the government and would realistically have little effect

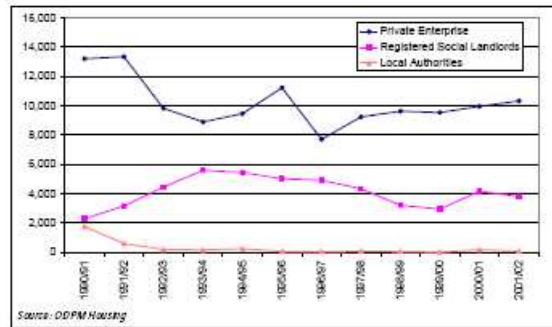
One recent development is the Tory government pledging to abolish stamp duty for first time buyers, to make getting on the first rung of the housing market more realistic. This would cause a big loss in the government's earnings however and could be more of a political move to gain votes from young people than a realistic solution to any problems

Government could also offer subsidies to firms who would be willing to move north to less desirable areas, they could make a profit from the sale of their land in the south east and also pay their workers less to do the same job in the north of the country, however due to the lack of skilled workers this could be very expensive with arduous retraining schemes. This could also take an extremely long time once a firm has to start moving factories

Government Intervention in the Private sector of housing under-provision

Most houses are built speculatively, It takes a considerable amount of time (usually measured in years) from the purchase of land to completion. House builders therefore make decisions on the level of housing starts based on the anticipated state of the market some considerable time ahead. and thus there are inherent risks in the house building business with future prices unpredictable, this makes the returns on investment unpredictable. There are many small firms in the house building industry so It is also the case that the private house building industry in the UK has a preponderance of small firms. Whilst there are a handful of large, well-known house building firms, DTI figures show that 96 per cent of all construction firms are classified as small businesses, employing 13 or less employees Making the industry particularly responsive to cost fluctuations. Being small they are more sensitive to fluctuations in costs and prices. As a consequence the health of the industry as a whole is strongly influenced by changes in interest rates. As a result Concerns about the risk involved in speculative house building leads to a tendency towards conservatism in the industry and thus reduces the responsiveness of supply to market price signals. It is in the interest of residential builders not to overstretch themselves and maintain as steady a supply (under-supply) of housing as possible. Developers are undoubtedly cautious about expanding supply when macro-economic conditions are uncertain. Technical conservatism, under-investment in training and further industry fragmentation. This only augments the under provision of housing.

Figure 4.3: Housing completions – London
(number of annual completions by type of developer, 1990/91-2001/02)



Changes to planning permission regulations

Planning regulations place restrictions upon the use of land...

The very nature of a land use planning system means that the UK planning system will place some restrictions upon the supply of residential land. The problem is that in south east large increases in housing prices have not led to significant increases in land available for development.

There has been a strong argument that the planning system can push up the price of land in the long run. It has been suggested that the planning system, through regulating the supply of usable land, reduces the extent to which house builders can respond to changes in demand. The evidence provided is the extent to which land and house price inflation outstripped increases in household incomes and the retail price index throughout the 1970s and 1980s. At the same time house builders were spending large sums of money pursuing planning permissions and maintaining land banks, and that these sums were being passed onto consumers through higher house prices.

The government could 'cut the red tape' and pass new legislation allowing house developers to be able to build more quickly making the price elasticity of supply less inelastic. The government could also cut the costs involved in wading through planning permission incentivising developers to build more houses. Government could also take some power away from local council whom often reject local planning permission due to nimbysm and for political ends. However these are likely to have a less than sizeable effect on housebuilding.

Non-government solutions

No Intervention

The government could leave house prices to market forces and let the market re-arrange itself without intervention. It is fairly certain that within 10 years the majority of people would not be able to afford a house in the South East forcing them to move north, this will stimulate demand for housing in the north and therefore prices would rise and the loss of demand for housing in the south would cause a drop in the prices also.

Conclusion

In conclusion I think it is clear that the government simply doing nothing is not a viable solution as it would be extremely politically unpopular and the side effects would also be very severe as the problem does not seem to be correcting itself. Although no options seem to be clear cut solutions, and many feasible courses of action have negative aspects, there are ways in which this problem can be helped. I think that the option that will have the biggest effect is the £22 billion house building programme. Out of all the options I believe it is this that will have the largest impact and go furthest to rectifying the problem

The government has earmarked the Thames Gateway as the site that would lead Britain's housing regeneration. For too many people that only spells disaster. But it ought instead to be seen as a great opportunity. You could fit a city the size of Tokyo into the Thames Gateway. The four million homes the authorities estimate we will need by 2016 could all be built in the Thames Gateway without overcrowding, and still it would be overwhelmingly green.

Yes, there will be costs to the environment but the population is growing and needs to be accommodated for. This renewal scheme will turn unused brown fill sites into vibrant communities, using the latest technology in house building methods to provide good quality housing at a reasonable price. As a direct affect of this project there will be thousands of jobs created for labours across the country, and the massive amounts of money that the government are going to spend will trickle down into the economy.

A weak supply of housing contributes to macroeconomic instability and hinders labour market flexibility, constraining economic growth. These risks to stability are likely to be increased should the UK decide to join Economic and Monetary Union. The UK Should have a more flexible housing market and this house building project will help to ensure that it does.

It is certainly true that we need to build more social housing, and more shared ownership housing because it is clear that for many people, housing has become increasingly unaffordable over time. The aspiration for home ownership is as strong as ever, yet the reality is that for many this need will remain unfulfilled unless the trend in real house prices is reduced. This Brings potential for an ever widening social and economic divide between those able to Access market housing and those kept out.

However I believe that merely building houses is not the right tact, other policies should be implemented to assist, for example just building lots more houses in the south east may increase supply helping in turn to dampen price; but this may just cause more people to be able to afford to live in the south east with a lot more houses to accommodate them. This would not be addressing the problem regional house disparities; this would just be moving more people down to the south. I think at the heart of the issue is making the north a more attract place to live with regeneration projects. Also there needs to be a boost of the north's economy for example the government could offer to buy land for business that are willing to locate to the north and offer tax relief also. This will create new jobs and stimulate the economy, there needs to be subsidized retraining programmes to allow for the workforce of places in the north east to become more dynamic and expedient so that firms are attracted by lower costs of production (cheaper land and labour) and not put of by large retaining costs.

I think it is key that the government stops hitting developers with regulations regarding new builds as at this moment in time there are just not enough of them, there have been calls from the central government for a tax on all the new builds form private developers to fund affordable housing I believe this would be a paradoxical move to make. I do agree we need an increase in social housing but not at the expense of new projects. Overall I believe that although the best solution for the present is to develop the Thames gateway it is my firm belief that the real solution lies in making the north a place that can compete with south on living standards because no-matter how many houses built, we cannot squeeze the whole country in to the south east.

