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Will Getting Britain Building Solve Our Housing Problems?

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If you have ever had the “builders in,” you will know that that in solving one problem, they frequently cause another necessitating more work and more expense. The newly installed Labour administration has made “Growth” the keystone of its economic platform and it has placed “Getting Britain Building,” 1.5 million new homes over the new parliament, as one of the major planks in their growth strategy.

As with many politically tinged policy regimes, both Left and Right, it is not entirely clear that the diagnosis – too few homes – fits the problems of homelessness on the one hand and affordability on the other.

In 1971[1] there were 16 million dwellings in the UK housing a population at the time of just under 56 million giving an occupancy rate of just under 3.5 people per dwelling-place. The latest data (2022) puts the UK stock of dwellings at a little over 25 million, housing a population of 67 million people, an occupancy rate of 2.6 people per dwelling. In other words, almost a third of the growing demand for housing is a function of consumers desiring/requiring more space per person housed.

That is not simply a point-to-point comparison, the trend to lower housing density is well entrenched and is doubtless a function of many underlying causes: decline of the nuclear family, rising divorce rates, and/or simply the amenity of enjoying greater personal space as living standards have improved.

On average, the UK builds about 175,000 dwellings per year. Assuming building “homes” is synonymous with building “dwellings,” (which it may not be since a single dwelling can “home” more than one person), the new Chancellor has committed to raising the rate of new house build by a little under 2 times. You have to travel back to the postwar reconstruction of the 1950s for the last time those volumes were achieved.

The structure of UK housing has also changed. Back in 1981, i.e. before the changes to housing legislation enacted by the early Thatcher governments, owner occupied housing accounted for 58% of homes. This peaked in 2002 at 70% and has since drifted down toward 64%.

In the same period, the rental sector formerly dominated by local authorities has been almost entirely replaced by the private rental sector. The public sector share of home provision has dwindled to barely 6% from the 29% it provided in 1981.

The rate of provision of dwelling-places has outstripped population growth in the UK for decades: since 1971 UK population is +20%, housing provision is +56% yet house prices have soared. In 1991 the average house cost £62,000 whereas today it will set you back £330,000 (2023), having peaked at £340,000 in 2022.

As you know, much of our work centres on valuing company shares. One of the very simple metrics stockmarket investors use to appraise the value of a share is the price to earnings ratio, or P/E. This is simply a measure of the current share price divided by the company’s current earnings. The higher the ratio, the more the investor is paying per unit of earnings: a higher ratio equals a more expensive share price. Normally we prefer to buy “cheap” rather than “expensive.”

The equivalent ratio in the housing market is the “price to income” ratio i.e. the multiple of the homeowner’s income to the value of the house. In the 1980s this ratio oscillated around 3. Today the same ratio is over 5. In other words, the UK

housing P/E has expanded by some 66% since the mid-eighties.

Lots of issues follow from this. If the new administration wants to improve access to housing, which implicitly means improve affordability, to the levels enjoyed in the last decades of the last century; to a first approximation they must either double the wage level or effect a reduction in house prices by half. The first looks unlikely and the second catastrophic: to the bank sector, to the large and highly indebted section of our community and, by extension, to the rest of us.

If the new administration is looking to housing to solve some of the UK's pressing problems, they are highly likely to be disappointed. They will either impose debt deflation on current mortgagees or impose wage-price inflation on the corporate sector.

Going for growth is an admirable strategy but, as the Irishman replied when asked (by the writer) how to get from Tipperary to Kinsale, "ah, tis a beautiful place to go but I wouldn't start from here!"

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[1] Data for this note is drawn from the Office for National Statistics and the Department for Levelling Up, Housing and Communities

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