

CITY A.M.

London must learn from New York's woes and build more homes

By: Allister Heath - November 7, 2013

One of the perennial myths about this country is that we are somehow uniquely keen on home-ownership and are culturally averse to renting. That's nonsense: 70.7 per cent of those who live across the EU's 27 member states are owner-occupiers, against just 64 per cent (and falling fast) in England and Wales.

Having risen from just 23 per cent in 1918 to 70 per cent in 2002, UK home ownership has slumped back to levels last seen in the 1980s. As a Policy Exchange report reminds us today, the planning system means that far too few homes are being built, pushing up their price and freezing out from the market a growing number of people who in other countries with a more benign approach to house-building would be able to afford to buy.

Of course, not everybody can or wants to own their own homes; the US sub-prime crisis was at its root the unintended consequence of policies by Democratic and Republican politicians to artificially bolster home-ownership. The government should not artificially push home-ownership (Help to Buy is a stupid policy) – but neither should it erect artificial barriers to make it harder.

In stark contrast, the US homeownership rate has started to climb again. It had dipped to its lowest level since 1995 in the second quarter, falling to 65 per cent; but it edged back up to 65.3 per cent in the third quarter. The peak was 69.2 per cent.

It's all about supply and demand: in the US, house prices tumbled following the crisis, with the cost of buying a home moving back in line with earnings. True, prices are shooting back up again now – they have risen by 12 per cent over the past year – but the US market, by and large, purged itself of its excesses. A vast number of people either declared bankruptcy (or otherwise walked away from their debts) or were repossessed. The UK market did far less readjusting.

The one US housing sub-market that has many of the same problems as those familiar to us here in the UK – namely, massively over-valued prices when compared to people's incomes – is New York. Unlike other cities such as Houston, and unlike the US as a whole, New York has artificially restricted new home building to a ridiculous extent. As the Cato Institute's Randall O'Toole has pointed out, in 1969, median house prices in the New York urban area were 2.6 times median incomes, rising to 3.3 times by 1979 and around 5.3 today, down from a mad 8.4 times in 2005. But in New York City itself, they remain at 8.7 times median incomes.

Crucially, this is not because New York has a lot of very rich people who are able to afford very expensive homes. These are median, not average prices, so they are not distorted as much by very expensive properties; and other prosperous US cities with lots of rich residents have kept prices under better control.

Take Houston, Texas: its price to income ratio is just 2.2. O'Toole is right: New York is suffering from a major supply-side housing crisis.

In fact, New York's problem is very similar to London's. Both cities need to build much more. The election of a far-left Democrat in the Big Apple ought to provide food for thought for Britain's Tories: unless they do more to kick-start housebuilding, the unaffordability of housing will fuel a political war that will sweep them away. Just 49.5 per cent of Londoners are now owner-occupiers, down from 59.9 per cent in 2001, according to the Census Information Scheme (though some of this decline will have been caused by a more transient population).

That is why Savills is right to be calling for 50,000 new homes to be built in London every year. It is also great news that Policy Exchange wants 300,000 homes to be built in the UK every year between 2015 and 2020. We need to unleash the private sector to build, build and build more.