UK government could force house price slump, economist warns

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Gordon Brown risks sending house prices into crisis if he insists on building millions more homes in Britain, a University of Nottingham economist has warned.

The government is pressing ahead with ambitious plans to create three million new homes by 2020 and recently unveiled a fresh funding boost for the scheme.

But Professor Daniel Bernhofen, an economics expert at the Globalisation and Economic Policy Centre (GEP), based at the University, warned the proposals were courting catastrophe. He said the government's plans are late in the game and would serve only to send house prices plummeting even further than anticipated — risking US-style turmoil.

Professor Bernhofen said: "The stakes are high. A miscalculation in increasing the stock of housing will have serious consequences for existing homeowners and the economy.

"The economic signposts indicate a decline in the price of housing through self-correcting market forces, but this self-correction will take some time.

"Unlike stocks and bonds, house prices don't fall overnight. From previous house-price cycles in the UK and abroad, we know the actual pound values often stay the same or fall slowly — but it's inflation that brings down the real value. That's why the correct advice for local authorities should be to show patience and let the market do the correction.

"A big-scale government initiative to increase the stock of housing requires fine tuning between the increase in the housing stock and the predicted demand for housing. But the informational requirements for this fine-tuning are immense — and government planners simply don't have that information."

Professor Bernhofen is a research fellow and co-ordinator of the theory and methods programme at GEP. The centre is the major facility in Europe for studying the impacts of globalisation and economic policy and has advised organisations including the World Bank and the World Trade Organisation.

Professor Bernhofen said the spectacular rise in house prices in recent years had not been driven by changes in the underlying demographics, but by investors seeking to increase their assets.

He claimed that now, due to the credit crunch, fewer people were buying to let, buying to renovate and sell or buying with a view to waiting for appreciation and moving on.

He added: "The government should be careful that it is not getting confused between need and demand. People only have to look around their neighbourhood to see that a big part of the housing demand has been driven by the asset motive, largely financed by cheap credit.

"Now things have started to change, with flattening and even falling prices in some areas, and the asset demand for housing has already started to dry up.

"The squeeze in the credit market has put a halt on cheap credit, and many landlords will be forced to sell when they face higher interest rates on their adjustable mortgages. This will accentuate the flattening of the price curve."

The government recently allocated £732-million in new funding to help local authorities develop community facilities and services to support its home-building plans. The money will be available over the next three years to scores of towns and cities that have volunteered for housing growth as existing 'Growth areas' or 'Growth Points'.

The government has described its Growth Areas and Growth Points programmes as a crucial part of its ambition to increase levels of housing supply.

Ministers want to build 240,000 homes a year by 2016 and a total of three million by 2020.

Source: University of Nottingham

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