

GLA Economics seminar: House prices in London

London: The paradox of space without room

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15th December 2015



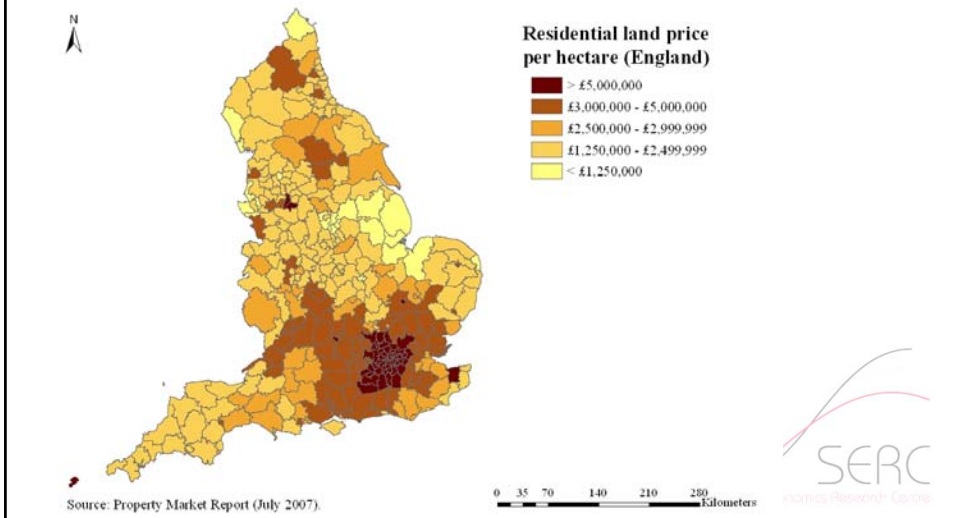
What happens to price if you restrict the supply of space?

- Space is valued: a strong income elasticity of demand:
 - Cheshire & Sheppard (1998) – about 2
 - Meen (2013) about 2.7 > than price elasticity of demand
 - [OBR 2014 – about 3]; Contrast IFS value
 - Policy has restricted the supply of space for housing in London since at least 1955
 - Since 1951 population only increased by 4.6% - Compare +50% 1871 to 1901: but
 - Real incomes up x 3
 - Car ownership up x 13
- Increases the price of land and housing; and increases price volatility.



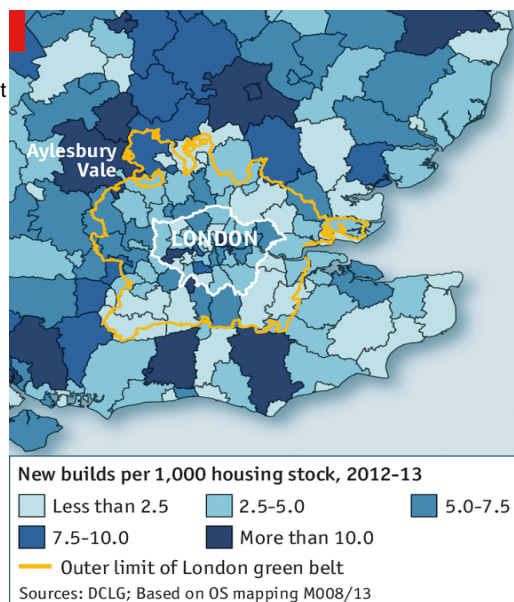
What happens to price if you restrict the supply?

- Can identify Green Belt by land price....

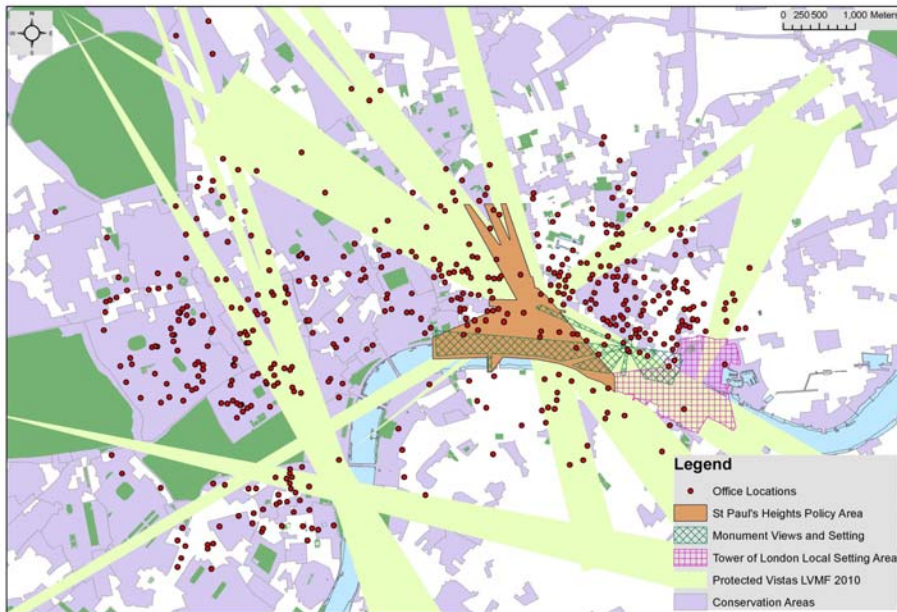


Or by where we aren't building houses!

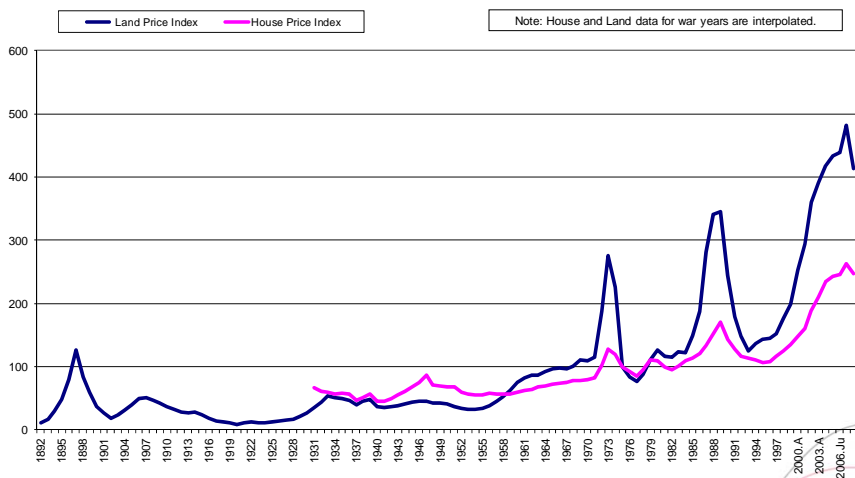
Source: The Economist
Jan 10 2014



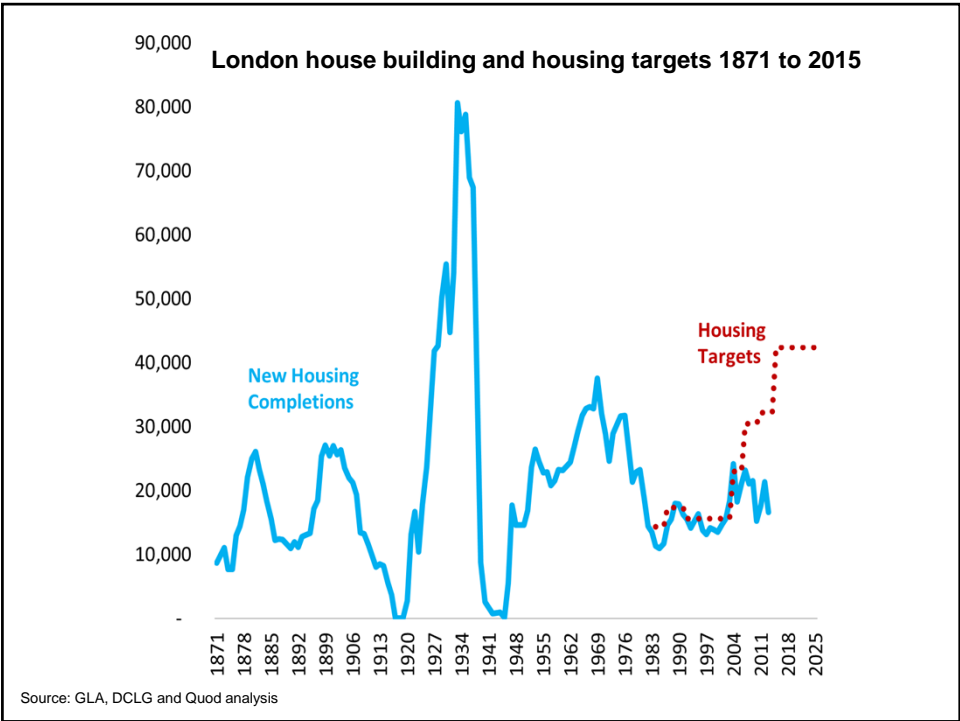
But not just NOT out: NOT up!



Real Price of Housing Land and Houses: England 1892-2007



Paul Cheshire, LSE August 2009



So where will London's House Prices go?

	2015	2020	2030	2015-20	2015-30
Estimate Mean House Price				Percent Change	
London	534,128	710,733	1,265,338	33.1	136.9
England	296,108	366,802	588,809	23.9	98.8
Mean House Price : Mean Income ratio				Percent Change	
London	11.5	12.9	16.5	12.2	43.5
England	8.2	8.6	9.9	4.9	20.7

There is no space...

- Counting gardens, parks, woods, agricultural, water, etc. 64.9% of GLA area is 'Green'
- Compares to 93.7% of South East – 'Green'
- 22.1% of GLA is Green Belt
- Area of golf courses **inside** GLA Green Belt – twice that of Borough of Kensington & Chelsea!
- Nothing against golf - but grotesque undersupply of housing and over supply of golf courses in London area
- OR....



**Desirable Residence: £30 000:
35 minutes West End; 1.5 acres; Needs
complete renovation: No humans need apply**

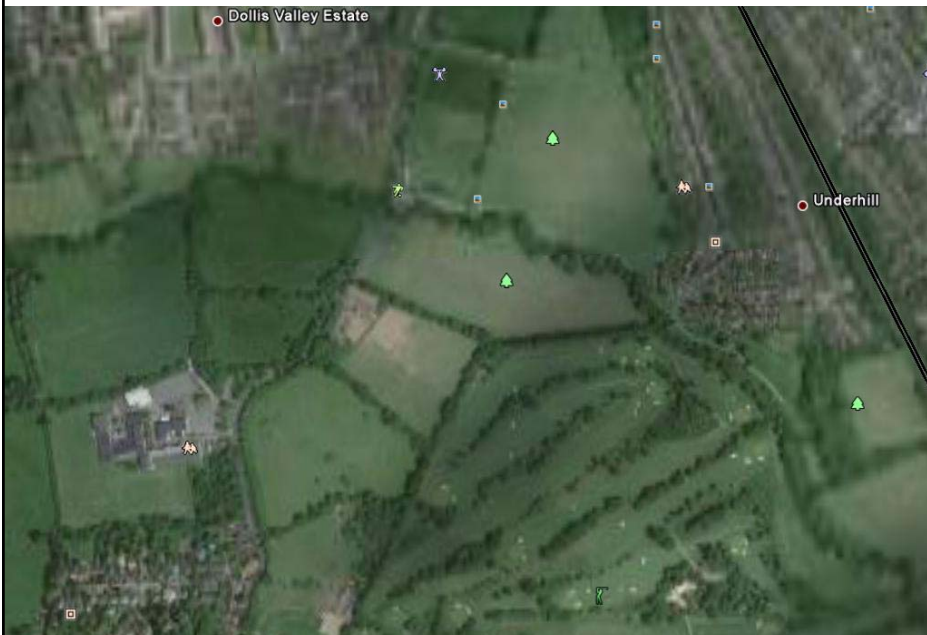


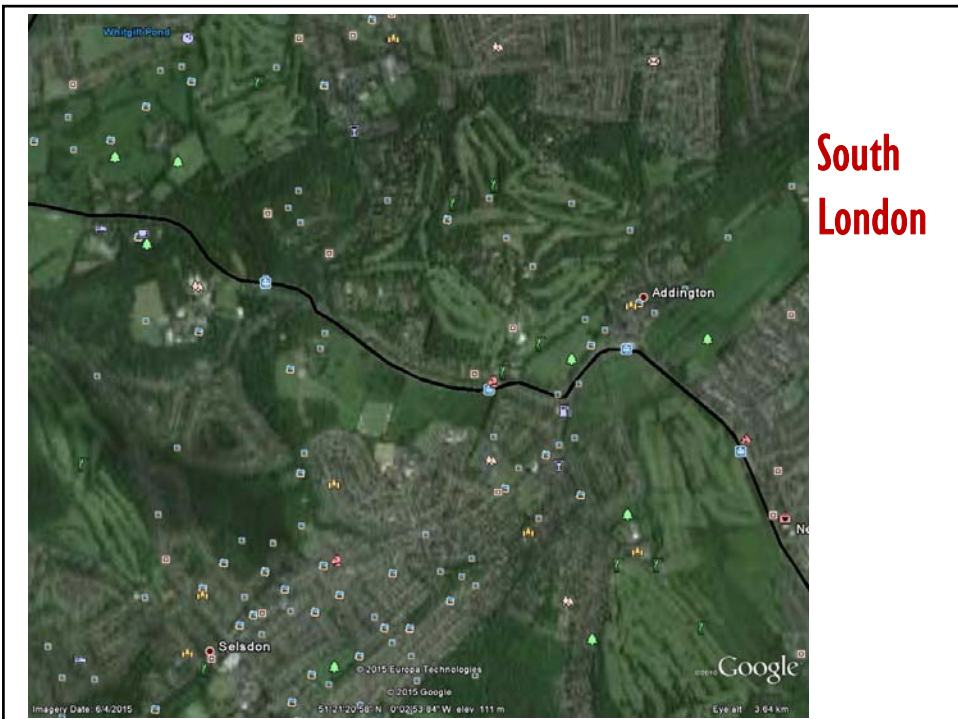
Thanks to
Barney Stringer
& QUOD who
found this image
on Google



**On the
Central
Line**

On the Northern Line





London's Housing Problem

- A shortage of space for housing
- But no physical shortage of space
- A 'policy constructed' shortage of space
- A problem of space: but no room
- And house prices will keep rising in real terms and faster than incomes
- Unless policy changes; or???