

PO-CH/NL/0424

PART A

Part. A.

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Chancellor's (Lawson) Papers:
House Prices: The Royal Institute of Chartered Surveyors survey.

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DD's: 25 years

Phillips

24/1/96.

4508

FROM: RUTH KOSMIN

DATE: 22 November 1988

SIR T BURNS

cc: PS/Chancellor 12/2
Sir P Middleton
Mr Scholar
Mrs Lomax
Mr Sedgwick
Mr Peretz
Mr Hibberd
Mr Grice

HOUSE PRICES : RICS SURVEY

There has been some press comment in today's newspaper (copies attached) on the slowdown in house price increases as reported in the survey published today by the Royal Institute of Chartered Surveyors.

2. In view of this press coverage, you may like to see a copy of the RICS Survey which is attached. This housing market survey has been published each month since 1979, and incorporates comments and anecdotal information over the previous quarter from estate agents throughout England and Wales.

*How would
have their house
Mkt. Quantitative
results proved
re report?*

Ruth Kosmin

RUTH KOSMIN

FIM2

Crash parallels in house market redundancies

Notebook



Edited by Hamish McRae

IT IS the equivalent of the crash in the housing market — at least from the point of view of the estate agents.

Yesterday Bairstow Eves, one of the national chains of estate agent built over the last five years to service the property boom, said that it was cutting 100 staff. Others are bound to follow. Prudential has already frozen recruitment.

So the stories you are likely to see over the next few months will mirror those from the stockmarket: redundancies here, cut-backs there, and behind it all, cross owners who paid too much for these businesses not so many short months ago.

For in industrial terms, the parallel is very close. You had a cottage industry, just like stockbroking, run by individuals or groups of partners. They were bought out by big chains, the insurance groups, banks and building societies. They were banded together under various brand names, like the Pru or Lloyd's Black Horse, largely to enable these big financial groups to secure access to home loans.

The supply, in the sense of the capacity of the estate agents to handle deals, increased vastly. For a while the demand increased along with it, just as the first year after Big Bang saw a big increase in demand for securities.

Then came the crash in share values. This inevitably and properly hit the headlines. But in industrial terms it mattered less than the fall in share trading volumes. Stockbrokers do

not mind whether prices are rising or falling (well, they do mind a bit); what really worries them, though, is when no one wants to trade.

And so it is with houses. Prices at the moment are flat: they have not fallen by 30 per cent. That is the good news. The bad news is that no one is buying or selling. Indeed in terms of the change in volume of trading, the fall in house sales may actually be greater than the fall in securities trading.

This leads to the first and obvious conclusion: estate agents will see a shake-out similar to that which took place in stockbroking.

What no one can say is whether low trading levels will themselves feed back though into house prices in any substantial way. To some extent they must, for there will always be distress sellers. But will it just be blowing off the froth? Or to use stockmarket jargon, will it be a more substantial de-rating of the sector?

House market boom slows to standstill

THE housing market has lost its volatility and looks set to hibernate this winter, according to a new survey on house prices yesterday.

by COLIN WILLIAMS

The Royal Institution of Chartered Surveyors revealed that there had been 100 per cent increase in the number of agents reporting static prices since its previous survey.

London and the South East is

currently a buyers' market with prices set more realistically and even cases of offers being accepted below the asking price.

Of the 188 agents in England and Wales contributing, only 11 per cent reported price increases of 8 per cent, while almost half reported static prices and 8 per cent, a fall.

The reason for lull in prices of houses is high mortgage rates and the belief that property prices would drop.

House prices begin to fall as mortgage rates bite

Larry Elliott
Property Correspondent

ESTATE agents are reporting falling prices in some parts of the country as higher mortgage interest rates and the scrapping of multiple mortgage tax relief start to take their toll.

The monthly property review of England and Wales by the Royal Institution of Chartered Surveyors published today shows a marked change in sentiment from the dramatic increases of the summer and concludes that the market is set to hibernate for the winter.

Regions which led the way in the boom — such as London, the South-east and East Anglia — have been the first to feel the effects of the slowdown, but the gloomier mood is gradually spreading northwards.

In the three months ending in October, only 11 per cent of the 188 estate agents questioned said prices had risen by 8 per cent or more, compared to 49 per cent in the quarter ending

in July. Prices shot up in the early summer as buyers took advantage of the fall in interest rates to a 10-year low of 7½ per cent and strove to beat the August 1 deadline for changes to tax relief on mortgages.

In July, only 4 per cent of agents reported static prices and none a fall, but last month more than 8 per cent were logging falls and a further 43 per cent no change.

Latest figures from building societies have indicated that prices have risen by more than 30 per cent nationally over the past year.

One estate agent in Ealing, west London, said the market had fallen by between 7½ per cent and 10 per cent and properties in other fashionable areas, such as Docklands, are proving difficult to shift.

The institution said London and the South-east was a buyer's market with prices at more realistic levels and offers accepted below the asking price in some cases.

The more pessimistic mood has spread to East Anglia,

where agents report a flat market, the East Midlands, where first-time buyers are finding it hard to clamber on to the housing ladder, and the South-west, currently experiencing a glut of property.

The evidence suggests that within a few months the trend towards steadier prices will have rippled to affect all regions.

Agents in the North-east reported prices being pushed up by shortages of supply, and demand has remained high in the North-west. Yorkshire and Humberside reported prices rising by at least 5 per cent over the past quarter.

The institution's survey comes in the wake of a number of gloomy forecasts from economists predicting a fall of up to 20 per cent in house prices over the next couple of years.

However, Mr Peter Miller, the institution's housing market spokesman, said he did not foresee a general fall in prices, if only because there was such a strong incentive to be an owner-occupier.

FINANCIAL TIMES

Slowdown in house prices 'will reach most of country'

By Andrew Taylor, Construction Correspondent

THE slowdown in the rise of house prices is continuing to spread and will soon be affecting most of the country, according to a survey published today by the Royal Institution of Chartered Surveyors.

The proportion of estate agents reporting static or falling house prices doubled last month. However, prices in Yorkshire and Humberside continued to race ahead.

Rises in interest rates and the ending of multiple mortgage tax relief from August 1 had tranquillised the housing market.

As a result sales over much of the country looked set to hibernate this winter, the institution said.

Almost 43 per cent of 188

estate agents questioned said that prices had remained static during the three months to the end of October. A total of 8 per cent said prices had fallen.

It was the first time for 2½ years that the proportion of agents reporting static or falling lower prices had been more than 50 per cent.

Mr Alan Chart of estate agents Alan de Maid in Tonbridge, Kent, said: "Asking prices across the range are experiencing falls of around 10 per cent to 11 per cent. Until there are stable interest rates the situation will not improve."

Other agents in south-east England said prices were stabilising rather than falling. Sales, however, were lower as buyers became more choosy.

In central London prices have been under pressure for several months.

One agent in Newham, east London, said: "House prices have fallen back slightly from the peak in July. A number of applicants have delayed buying hoping that prices will continue to fall."

In Yorkshire and Humberside almost a third of agents last month reported house prices increased by more than 8 per cent in the previous three months. Only 6.5 per cent of agents said prices were static and none reported price falls.

The institution said most agents expected the market would pick up again when the spring buying season got under way.

1/2

House prices hibernating for the winter

THE housing market has gone into hibernation and is expected to stay dormant until well into next year.

The winter freeze on property prices is revealed in the latest report by the Royal Institution of Chartered Surveyors.

The boom was halted by higher interest rates. Budget changes in mortgage tax relief and a growing feeling that prices might be about to fall.

Half the estate agents in England and Wales questioned in the survey said prices were now static.

They predict confidence will return only gradually as buyers and sellers resign themselves to higher interest levels.

London and the South-East has seen the sharpest reversal into a buyers' market, says the survey.

Problem

Asking prices in commuter-land around Tunbridge Wells, Kent, have dropped by around 11 per cent.

In the capital, Richard Cordy, of Ideal Homes London, said: "The usual uplift of demand in September just never happened because high interest rates forced out first-time buyers and

chains started to break down all over the place.

"We have identified the first-time buyer market as the problem area—and our mortgage subsidies in the suburbs are worth £1500 on a £70,000 home."

In London's docklands, Ian Rowberry of Rosehaugh Copartnership, said: "There is a measure of panic among developers doing poor quality stuff in inland positions away from the

UPS AND DOWNS

THE survey reveals the following regional trends throughout the country:—

DARLINGTON: Uncertain and overheated market with severe shortage of houses to sell. **NEWCASTLE:** Prices continuing to rise particularly at top end of the range. **WASHINGTON Tyne and Wear:** Extremely strong sellers' market with demand far and away outstripping supply. No sign of south-east slump reaching this area. **HULL:** Overall house price increase of not less than 40 per cent for 1988.

LEICESTER: Prices levelled off. Substantially increased stock of property available at all price levels. **NORTHAMPTON:** Very slow market because of complete absence of first time buyers. **SOUTHSEA:** Vendors now waiting for the New Year. **WOKING, Surrey:** Prices static since August 1 deadline on multiple tax relief. **PLYMOUTH:** Owners who seriously want a sale are having to cut asking prices. **EALING, London:** Market has gone down by 7.5 to 10 per cent in value.

By JEREMY GATES

water. "In some cases, discounts are as large as 20 per cent."

Even in the north the late summer boom seems to be coming off the boil.

The report's special focus on Yorkshire and Humberside says that very high prices are no longer being achieved as interest rates bite.

RICS spokesman Peter Miller said: "The effects of the dormant market in the south are being felt over a greater part of the country. "And prices are stabilising."

Why rates should fall

Mr D. O. E. Batten

Sir, The Government holds the control of inflation as one of its main priorities, and it sees the control of the money supply as being one of the key factors towards achieving this end.

At the same time it concedes that credit is one of the vital components of the nation's money supply, so the argument is put forward that interest rates must go up in order to damp down the demand for credit.

Can any of your readers tell me what is wrong with my reasoning that interest rates should in fact be put down — so that it no longer becomes attractive to lend money, especially to those who are bad credit risks — and that our problems are compounded by the fact that real rates of return on lending are too high, thus making it too attractive to lend money?

I suggest that a rate of return around 2 per cent over the current rate of inflation would put the supply side of the equation in balance with demand very quickly indeed.

Yours faithfully,
D. O. E. BATTEN,
Christmas Cottage,
Ridlington,
Oakham,
Rutland,
November 8.

DAILY EXPRESS

An open secret

ONLY the Economic and Social Research Council—notorious for its funding of fatuous projects—could think of awarding £36,000 for an academic study into the reasons for the Government's popularity.

We can save the taxpayer the money and tell it for free. People simply have this weak spot for lower taxes, higher standards of living, and a chance to buy their own home and some shares. It's called prosperity.

On second thoughts, there is perhaps another body not in on this open secret... Neil Kinnock's Labour Party.

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RICS NEWS



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For further information please contact Zena Howard

"HOUSING MARKET HIBERNATING", SAYS RICS

RICS SURVEY FOR ENGLAND AND WALES FOR THE
QUARTER ENDING OCTOBER 1988

"A dozing housing market over much of the country looks set to hibernate this winter", says The Royal Institution of Chartered Surveyors in its survey for the quarter ending in October.

The MIRAS changes, interest rate rises and a belief that property prices would drop have all served to tranquillize the market and it is likely to slumber for a few months more (there has been a 100 per cent increase in the number of agents reporting static prices since the last survey). There is a feeling amongst agents that confidence will gradually return as buyers and sellers resign themselves to the high interest rates and realize that prices are not going to fall except in isolated cases.

London and the South East is currently a buyers' market with prices set more realistically; offers being accepted below the asking price in some cases.

Of the 188 agents throughout England and Wales who contributed, only 11 per cent reported increases of eight per cent while almost half reported static prices and eight per cent reported a fall (eight times that of last quarter).

Continued/...



A special survey of Yorkshire and Humberside indicates a buoyant market with demand high, particularly for the more expensive properties which are in short supply. There is an underlying feeling, however, that the market is slowing as the effects of interest rates begin to bite and very high prices are no longer being achieved. Just under a third of agents reported increases of eight per cent and six per cent reported a static picture. None have yet reported falling prices. A healthy commercial climate in this area with much new retail and office development is attracting a steady flow of people who are further lured by cheaper property compared to the South and the open countryside.

Peter Miller, RICS Housing Market Spokesman comments: "The effects of the dormant market in the South are being felt over a greater part of the country and prices are stabilizing with asking prices being revised downwards in certain cases to adjust to market conditions."

"While there is no attractive alternative to home ownership in this country which would enable owners to 'cash in' their investment and rent, for example, there is a personal incentive to be an owner-occupier for this reason if no other, and I do not subscribe to the predictions being made of realised price reductions, and a general falling of prices".

E N D S

ROYAL INSTITUTION OF CHARTERED SURVEYORS

HOUSING MARKET QUESTIONNAIRE - 3 MONTHS ENDING OCTOBER 1988

Total number of agents who contributed	188
National average of secondhand houses and flats on direct instructions per agent	106
National average of properties sold per agent in the last three months	60
Number of agents contributing in special region - Yorkshire & Humberside	18
Average of direct instructions per agent in special region	120
Average of properties sold per agent in this region in the last three months	99

AGENTS' COMPARISON WITH PRICES THREE MONTHS AGO
Percentage of agents reporting in each category

NATIONAL RETURNS	+8%	+5%	+2%	SAME	LOWER
PRE-1919 TERRACE	9.6	14.4	25.0	41.0	10.1
INTER WAR SEMI-DETACHED	11.2	17.6	20.7	43.1	7.4
INTER WAR DETACHED	10.6	18.6	16.5	46.3	8.0
POST WAR SEMI-DETACHED	11.7	16.5	20.7	43.6	7.4
POST WAR DETACHED	11.7	14.9	21.3	43.1	9.0
NEW HOUSES	13.8	18.1	20.7	39.4	8.0
Average	11.4	16.7	20.8	42.7	8.3
YORKS & HUMBERSIDE	+8%	+5%	+2%	SAME	LOWER
PRE-1919 TERRACE	27.8	38.9	27.8	5.6	0
INTER WAR SEMI-DETACHED	27.8	50.0	16.7	5.6	0
INTER WAR DETACHED	27.8	55.6	11.1	5.6	0
POST WAR SEMI-DETACHED	33.3	44.4	16.7	5.6	0
POST WAR DETACHED	33.3	38.9	16.7	11.1	0
NEW HOUSES	38.9	38.9	16.7	5.6	0
Average	31.5	44.4	17.6	6.5	0





HOUSING MARKET ENQUIRY

COMMENTS FOR THE PERIOD 31 JULY 1988 - 31 OCTOBER 1988

Area A Northern

Carlisle - Cumbria, Richard Stow, GA Property Services
Tel: 0228 48666

The market is still active with a lack of available properties. Preliminary signs that there may be a general slowing up in the next few weeks.

Darlington - Durham, Tony Lewis ARICS, Goom & Wearmouth
Tel: 0325 55355

An uncertain and overheated market with a severe shortage of supply of houses new to the market.

Darlington - Durham, J W G Cameron, Lowther Scott-Harden
Tel: 0325 720976

House prices continue to be buoyant with no signs of slackening.

Grange-over-Sands - Cumbria, Jeremy Harrison FRICS, Thompson Matthews. Tel: 04484 3304

There is a continuing shortage of property for sale in all sections of the market resulting in a strong demand with prices still rising but not as fast as in the previous six months.

Hartlepool - Cleveland, R A Greig, FRICS, Norman Hope & Partners
Tel: 0429 267828

High demand in the middle and upper price range generated by lack of property coming onto the market and unaffected by higher mortgage interest rates.

Kendal - Cumbria, D C Wilkinson, Black Horse Agencies - Entwistle Green. Tel: 0539 20904

The level of enquiry has slowed and although the market is still "vendor favourable" there are signs that the higher mortgage rates are having a dampening effect on demand.

Newcastle-upon-Tyne - Tyne and Wear, P F Miller FRICS, Black Horse Agencies - Storey Sons & Parker. Tel: 091 232 6291

The market in the North East is still extremely active, with evidence of prices continuing to rise particularly at the top end of the range.



Newcastle-upon-Tyne - Tyne and Wear, Edward Watson, Edward Watson & Sons. Tel: 091 232 9555

At present the market is confused. Only a few good quality houses have been offered to the market and these are quite quickly sold. Sales of all other houses are slowing down, as is the rate of price increases. We are now experiencing the beginnings of a buyers' market for the first time since the beginning of the year.

Newcastle-upon-Tyne - Tyne and Wear, Nick Lansberry BSc ARICS, Sanderson Townend & Gilbert. Tel: 091 261 2681

The market continues to be buoyant with high demand for all types of property in all price ranges. There are signs however that prices are beginning to reach a plateau and asking prices are not now as bullish as they were in mid-summer.

We anticipate strong demand for properties at the upper end of the market will remain for some time.

Penrith - Cumbria, I M Davidson, GA Property Services
Tel: 0768 62095

The market continues to be extremely active with fewer properties coming onto the market.

Sedbergh - Cumbria, Graham D Munday BSc ARICS, Thompson Matthews
Tel: 05396 20293

A continuing problem in this locality is a complete lack of supply of houses which has been a problem for the past six months.

Stockton-on-Tees - Cleveland, J R Wilson, Ralph Appleton & Hall
Tel: 0642 675555

High demand chasing very few properties is keeping prices on upward trend. Valuation is uncertain and auction is becoming common.

Sunderland - Tyne and Wear, Raymond W Wallhead BSc (Est Man) FRICS, Wallheads Nationwide Anglia Estate Agents.
Tel: 091 567 8211

There is an extreme shortage of properties coming onto the market, resulting in considerable price increases over the last quarter. Increased mortgage rates do not appear to have made any appreciable impact as yet.

Washington - Tyne and Wear, Gordon Lamb, Wallheads Nationwide Anglia. Tel: 091 416 6919

An extremely strong sellers' market with demand far and away



outstripping supply. There are no indications of the slump in the housing market in the South East reaching this area.

Whitley Bay Wallsend - Tyne and WEar, J P Elliott, GA Property Services. Tel: 091 253 4117

There is a shortage of properties across the price band; a significant number of sales falling through due to inability of vendors to find a suitable property to buy.

Area B Yorkshire and Humberside

Bridlington - North Humberside, R J Graves FRICS, D Dunk Lewis & Graves. Tel: 0262 678236

Despite the time of year demand for all types of property far exceeds supply. The increase in prices shows no real sign of slowing down at the present time.

Brigg - South Humberside, A D Hartshorne BSc FRICS FSVA, Dickinson Davy & Markham. Tel: 0652 53666

The market appears to have steadied over the past month, with more property available than for some time. Demand for the first time buyer properties remains high. The recent increase in mortgage rates have contributed somewhat to the slowing of the market, but not as drastically as anticipated by some, with the majority of properties still selling quickly and achieving high prices.

Goole - North Humberside, Neville E Townend. Tel: 0405 69106

Market is starting to slow down. Shortage of replacement properties.

Hull - North Humberside, J A E Wick, James Wick & Partners
Tel: 0482 846278

The market took off in March and the initial surge in property values occurred through to September but even now demand for all types of residential property remains high and values are continuing to rise. We think this will continue through to the Spring of next year as demand is likely to remain ahead of property available - the Humberside area appears to be entering a period of prosperity and the number of people moving into the area continues to increase. In June we forecast a rise of 20 per cent plus in house values for the year (Jan/Dec) but clearly this was far too low and we shall in fact see an overall increase for 1988 of not less than 40 per cent.



Leeds - Yorkshire, J Bennett, Dacre Son & Hartley
Tel: 0532 431524

House prices, have remained at a steady level. There has been an increased number of properties coming on to the market during the last four weeks.

Sheffield - South Yorkshire, Anthony Riddle, Eaton Lockwood and Riddle Residential. Tel: 0742 761277

The market has now levelled and, whilst prices seem to be being maintained and there is a high level of demand, offers are much slower to come in, resulting in a 'longer' market. Demand for residential building land continues at a high level and prices realised at auction for run-down property or rather 'opportunities' such as barns for conversion and residential investment property still seem to be rising.

Sheffield - South Yorkshire, Eric Wadsworth FRICS, Lewis Wadsworth & J J Greaves. Tel: 0742 468524/464171

The market has steadied significantly in the last two months and the general shortage of good properties for sale indicates some slight uncertainty. The higher interest rates seem to be having an effect in this area in depressing sales.

Stokesley - North Yorkshire, Peter D G Hopley, Black Horse Agencies, Storey Sons & Parker. Tel: 0642 711555

The market has continued to be as buoyant in the last three months as in the previous period. There are no signs yet of the market slowing down. Supply of houses is still rather limited and demand is very high.

Area C North West

Accrington - Lancashire, R P Blackledge, Mortimer Gorse Ross
Tel: 0254 34266

High level of demand for modern and inter-war estate property. Market activity is consistent with the time of year. There has been a fall off in interest from first time buyers.

Alsager - Cheshire, J C Sutton, Heywood & Sons
Tel: 0270 878787

Despite a slowing down in market activity, very substantial price rises are evident compared with the market of three months ago. A comparative shortage of available property ensures that the market remains buoyant with good prices obtained. A seasonal lull is noticeable.



Burnley - Lancashire, M R Hallerton, H W Potty & Co
Tel: 0282 415111

Market continues to be buoyant - demand outstripping supply.

Chester - Cheshire, F E P Darlington, Thomas C Adams
Tel: 0244 41281

Demand for properties in all ranges has slowed down considerably since the rise in interest rates.

Southport - Lancashire, B R Jackson, Ellis & Sons
Tel: 0704 34171

The market is beginning to slow down, but there is still a very strong demand for higher priced well maintained houses.

West Kirby - Merseyside, Clive Watkin, Black Horse Agencies Sykes Waterhouse. Tel: 051 626 6106

Property of all descriptions up to £100,000 is still selling very readily indeed. Semi-detached still improving in value but at a slower rate than previously.

Properties between £100,000 and £200,000 are moving but at a slower pace and the more expensive the property, the slower the pace.

Property over £200,000 is now proving difficult to sell and I would anticipate small price reductions in this price range over the next few months to tempt buyers and satisfy vendors.

Area D East Midlands

Leicester - Leicestershire, David Johnson, Spencers
Tel: 0533 538711

Prices have levelled off. There is a substantially increased stock of available properties at all price levels.

There is evidence of a greater degree of negotiation over price, whereas in May/June, asking prices (or more) were being universally achieved. There is a shift to a distinct buyers' market.

Lincoln - Lincolnshire, P J Barnatt, Hunters
Tel: 0522 513315

Steady increase in number of properties on the market, as intake exceeds sales. Noticeable, however, that the majority of the properties we have taken on over the past six weeks, at a realistic asking price, have still sold quite quickly.



Northampton - Northamptonshire, Howard J Payne, Blacklee Conn & Lea. Tel: 0604 30251

The market is still very slow due to the complete absence of first time buyers. Prices of Victorian terraced properties in particular now very noticeably lower than July/August levels. Comparative bargains are appearing in all price ranges.

Sleaford - Lincolnshire, G E Wreglesworth, Escritt Barrell Morris
Tel: 0529 302271

General demand reduced since the recent increases in mortgage interest rates.

Wellingborough - Northamptonshire, Simon Barratt, Wilson Peacock
Tel: 0933 78591

Difficult market. Lack of first time buyers. Long chains developing.

Area E West Midlands

Cannock - Staffordshire, R W B Lyne ARICS, Evans & Evans Limited
Tel: 05435 3678/9

With a build up of properties now available on the open market, asking prices now require a completion edge for a sale to be achieved quickly. Prices have now levelled out and the market is more in balance with it becoming easier to buy and sell.

Coventry - West Midlands, P J Holt, Cartwright Holt
Tel: 0203 256301

The market has now levelled off with the increase in interest rates.

Knowle - West Midlands, A M Spittle, James & Lister Lea
Tel: 0564 779187

The market has generally stabilised since August. No significant increase in house prices in all price ranges noted.

Stafford - Staffordshire, D J Sandy FRICS, Evans & Evans
Tel: 0785 42426

The market in this part of the Midlands appears to be robust and although asking prices have become somewhat more realistic, prices actually achieved do not seem to be falling.

Telford - Shropshire, Alastair de Hamel ARICS, Hamels
Tel: 0952 641515

The whole of the residential market in Shropshire has slowed, helped by high mortgage rates and Christmas only weeks away.



Many first time buyers locally are now unable to afford their first home following an increase this year in property values of 80 per cent and in mortgage rates of 50 per cent. The whole market has stagnated. There is a shortfall of projected new housing over the next three years to meet known demand and this in it self must help maintain a reasonably buoyant market once Christmas and the New Year are over.

Area F East Anglia

Bury St Edmunds - Suffolk, Geoff Dear, Lacy Scott & Sons
Tel: 0284 67121

The market has slowed down - due to the rise in mortgage rates. The seasonal trend is also affecting the market. Properties are still coming in but sales have slowed down.

Fakenham - Norfolk, H Spalding, Spalding & Company
Tel: 0328 2396

The market is very much slower.

King's Lynn - Norfolk, Mrs J Lee, William H Brown
Tel: 0533 771337

The market is quiet at present. We have, however, recently launched a Shared Ownership Scheme (SOS) aimed at helping first time buyers to get on the first rung of the property ladder and this is likely to stimulate the market.

Newmarket - Suffolk, M D R Knight FRICS, Jackson-Stopps & Staff
Tel: 0638 662231

Good quality homes are still finding buyers from outside the area at their peak summer prices.

In most price ranges it is now a 'buyers market', with the exception of the country house with a few acres (preferably convenient to the region's arterial roads) where demand still outstrips the supply.

Area G South East

Crawley - Sussex, John H Coxon, Churchman & Duke
Tel: 0293 26421

Very little activity and we expect this trend to continue during the forthcoming quarter.

Crowborough - East Sussex, J T Beesley, St John Vaughan
Tel: 0892 652833

At present demand is steady.



Orpington - Kent, Andrew L Miller, Linay & Shipp
Tel: 0689 25678

The market seemed to be recovering a little towards the end of the month. The level of activity is definitely low.

Reading - Berkshire, Robin Mann, Haslams
Tel: 0734 585456

After a lull since August, sales have picked up and prices have stabilised. Purchasers are more selective than they were earlier in the year. Building plots are in demand but at realistic prices only.

Southsea - Hampshire, D M Nesbit FRICS FCI Arb FSVA JP, D M Nesbit & Company. Tel: 0705 864321

The last two months have seen a marked drop in enquiries and property prices are 'drifting' - certainly off the peak experienced in July.

Vendors are now waiting for the New Year. By the end of 1988 we will have seen a year of two very different halves.

Tunbridge Wells - Kent, Alan Chart FRICS, Alan de Maid
Tel: 0892 511933

The housing market is continuing to slow right down. Until there are stable interest rates the situation will not improve. Asking prices across the range are experiencing falls of around 10 to 11 per cent.

Winchester - Hampshire, Robert Poole, Halifax Estate Agents
Tel: 0962 68551

Very much of a buyers' market still - with plenty of vendors but fewer purchasers. There are some signs of more purchasers appearing.

Woking - Surrey, Andrew R Davis FNAEA, Hogg Robinson Chancellors
Tel: 04862 70701

Since the 1st August budget deadline on multiple tax relief, house prices have remained static. There have been attempts by owners and agents to ask for inflated prices but these do not appear to have succeeded.

Area H South West

Barnstaple - North Devon, W J Spain FRICS, Webbers Bristol & West Property Services. Tel: 0271 73404

The market has seen a complete change from increasing prices and general lack of property available, to a glut of property



available and falling prices. The hardest hit area within the market is the traditional estate type house.

Cheltenham - Gloucestershire, C J Easterbrook, G H Bayley & Sons
Tel: 0242 521102

A significant underswell of serious interest in the residential market is supporting the already high level of annual sales despite the gloom and rumour that the housing market boom has ground to a halt.

High prices are no longer a feature of sales but the volume of sales is generally high for this time of year.

Exeter - Devon, David Rayment, Bristol & West Property Services
tel: 0392 431276

The demand for a large supply of property has dropped due to higher interest rates, the change in mortgage tax relief rules at the end of August regarding joint purchasers, and the wider gap between average incomes and average house prices. Although asking prices have not necessarily dropped from their levels of three months ago, offers are being accepted as much as 10 per cent below. Realised prices are showing signs of being lower than previous levels, particularly at the lower end of the market.

Hayle - Cornwall, F T C Johns, J R Buddle & Son
Tel: 0736 752588

More properties coming on to the market but it is taking longer to agree a sale. This will lead to a levelling or even a fall in general prices.

Paignton - Devon, P N Bourne, Bourne & Smith
Tel: 0803 527523

The market has changed into a buyers' market. Considerably more properties are coming on to the market for sale with less buyers resulting in considerable negotiation between vendor and purchaser on eventual sale prices.

Plymouth - Devon, Graham Adam, Stratton & Holborow
Tel: 0752 666555

The rise in interest rates and the new rules governing multiple tax relief on single properties and a seasonal reduction in market activity, has dampened the market. Owners who seriously want to contemplate a sale are having to bring down their asking prices to achieve a prompt sale.



Plymouth - Devon, Robin Falle, Gribble Booth & Taylor
Tel: 0752 663112

The market appears to be making a recovery after suffering a slight dip in activity after the peak period in the summer. Considerably more vendors have come on to the market.

Area J Wales

Bridgend - Mid Glamorgan, Roger Davis, Black Horse Agencies -
Cooke & Arkwright. Tel: 0656 56551

Prices have levelled off. Demand is less, though supply has slightly improved due to lack of confidence in mortgage rates.

Bwllth Wells - Powys, Irving Parry FRICS, Russell Baldwin &
Bright. Tel: 0982 553614

A marked slow down in the market and a lack of new instructions in the past month. However, country houses and smallholdings still remain in good demand.

Cardiff - South Glamorgan, G Carter, Cooke & Arkwright
Tel: 0222 233666

Level of enquiries for properties generally steady although sales of houses slowing down. Many more properties available between £150,000 and £300,000. First time buyer market is reasonably active.

Cowbridge - South Glamorgan, Roger Davis, Black Horse Agencies,
Cooke & Arkwright. Tel: 04463 5577

Prices have levelled. There is considerably less demand for property over £200,000 due to lack of confidence in mortgage rates and the time of year.

Cwmbran - Gwent, David Martin, Newlands. Tel: 06333 5576

Market activity has dropped significantly and the wave of price rises has now ended. There has been an increase in the number of houses available on the market and a sharp decrease in the number of serious buyers. It is a buyers' market particularly in the middle and higher price ranges.

Newport - Gwent, Geraint Evans, Black Horse Agencies, Cooke &
Arkwright. Tel: 0633 246777

Supply of properties currently exceeds demand and an air of calm has superseded the very buoyant market of the first six months of the year.



Pembroke - Dyfed, Mark R Hapnes BSc ARICS, Black Horse Agencies, Cooke & Arkwright. Tel: 0646 682706 or 0834 2070

The rate of increase is slowing.

Penarth - South Glamorgan, David Baker, David Baker & Co
Tel: 0222 702622/701163

Prices are now falling slightly at the top end of the market. There is no longer the demand. The bottom end of the market will now start to catch up again.

Area K Greater London

Ealing - London, T Kyte, Brendons. Tel: 01-998 7748

The market has gone down 7.5 to 10 per cent in value. Clear evidence of price falls. This is a direct result of the MIRAS clamp and the rise in interest rates. Affects all price ranges. The market will continue to decline and probably pick up from January 1989.

Friern Barnet - London, Ian Russell, Russell Jones
Tel: 01-368 1510

The market has slowed down in the last three months, almost to a halt in mid-October.

Islington - London, James Gibbins, Folkard & Hayward
Tel: 01-226 2487

Although prices of houses have remained static the market has remained buoyant. Flats priced up to £100,000 are difficult to sell.

Islington - London, Conrad Mazen, Copping Joyce
Tel: 01-266 4221

Although quieter than normal for this time of year there is still plenty of activity within the market place in the Islington area and there are some signs of confidence slowly returning.

Kennington - London, P Smeeth, Daniel Smith. Tel: 01-582 5550

The market has levelled out considerably. A buyers' market in which vendors are taking offers which are often considerably less than the asking price.

Newham - London, R G Miller, Randalls - Nationwide Anglia.
Tel: 01-470 1333

House prices have fallen back slightly from the peak in July. A number of applicants have delayed buying, hoping that prices will continue to fall. Now that the Chancellor has stated that



interest rates are likely to remain at the present level for a considerable time, purchasers will come back into the market sooner rather than later, realising that they must resign themselves to high interest rates for the foreseeable future.

Southgate, London Borough of Enfield - (Middlesex) London, C S
Rash, Rash & Rash. Tel: 01-882 2828

More property now on our books but fewer prospective purchasers. Prices stable and some vendors being more realistic if they need to sell.

Southwark - London, Aziz, Burnet Ware & Graves
Tel: 01-691 4201

The market has declined with a drastic reduction in the number of first time buyers due to high interest rates. The housing market in the middle price range is more active. Overall activity has reached a minimum. The market is clearly a buyers' market. Prices are more realistic but not falling.

Waltham Forest - London, Jonathan Hooker, Clarkes
Tel: 01-521 8875

Although the market is still quite slack it has shown signs of picking up slightly. There is a good selection of property on the market. A few more serious buyers around compared to last month.

RICS Local Housing Market Spokesmen



Birmingham, Coventry & West Midlands	Harvey Williams	0203 410117
Brighton	Brian Graves	0273 21122
Bristol	John Allen	0272 293171
Cambridge	Martin Green	0233 358302
Cardiff	Philip Watkins	0792 43963
Carlisle	Richard Stow	0228 48666
Chichester	Nigel Smith	0243 785181
Cleveland/North Yorkshire	Peter Hopley	0642 710583
Devon	Brian Spear	0752 260011
Essex	Peter Mockett	0708 45004
Gloucester	Clifford Easterbrook	0242 521102
Hull	Arthur Hartshorne	0482 223305
Ipswich	Barry Hall	0473 215656
Leeds	John Hepper	0532 442020
Leicester	Geoffrey Kingston	0533 537722
Lewes (East & Mid Sussex)	Andrew Pridell	0273 477022
Lincoln	Tony Brogden	0522 31321
Liverpool	Bruce Jones	0704 36900
London	Tony Copping Joyce	01 359 0922
London	Norman Friend	01 584 5361
London	Laurie Norman	01 609 6844
Manchester	Howard Goodie	061 236 1114
Medway (Maidstone/Medway)	Christopher Elphick	0634 41233
Medway (Sittingbourne/East Kent)	Anthony Smith	0795 27383
Newcastle	Peter Miller	091 2326291
Norwich	Ken Hammond	0603 629691
Norwich	Robin Bramall	0603 620551
Nottingham	Chris Charlton	0602 588788
Peterborough	Colin Yarwood	0733 42801
Portsmouth	David Nesbit	0705 864321
Preston	Bill Honeywell	0200 26919
Reading	Robin Mann	0734 585456
Sheffield	A J Riddle	0742 761277
Southampton	William McClintock	0703 25155
Stoke-on-Trent	Jim Sutton	0270 878787
York	Edward Waterson	0904 27436

E N D S

BF 31/11



FROM: MISS M P WALLACE

2/12

DATE: 24 November 1988

MS KOSMIN

- cc Sir P Middleton
- Sir T Burns
- Mr Scholar
- Mrs Lomax
- Mr Sedgwick
- Mr Peretz
- Mr Hibberd
- Mr Grice

HOUSE PRICES: RICS SURVEY

The Chancellor was interested to see a copy of your minute of 22 November. He has asked how reliable the RICS Housing Market Questionnaires have proved in the past.

A handwritten signature in dark ink, appearing to be "MPW".

MOIRA WALLACE

CONFIDENTIAL

I agree. Potentially this
is very costly indeed in
public expenditure terms.

spare

FROM: M C BETENSON
DATE: 1 DECEMBER 1988

1. MR EDWARDS

ADCE

cc

Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Miss Peirson
Mr Turnbull
Mr McIntyre
Mr Potter
Mr A White
Mr Wood
Mrs Holmans
Mr Ramsden
Mr Call

2. CHIEF SECRETARY

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FLEXIOWNERSHIP AND RENTS TO MORTGAGES

Your office asked for a note on this before the Cabinet Office paper goes round on Friday, ready for the Prime Minister's meeting on 8 December. I will let you have a speaking note for the meeting itself next week once you have had a chance to consider the issues.

Cabinet Office Report

2. Following the Prime Minister's last meeting on 21 July, the Cabinet Office Official Group was asked to work up a single flexi-ownership scheme. The Group has since agreed a series of features of a single scheme:

- (i) eligibility should be the same as for Right to Buy (RTB);
- (ii) flexiowners should take out mortgages with repayments equal to rent (less £5 a week for maintenance) and pay the capital raised to the public sector;

- (iii) the public sector should retain a charge on the property - a percentage of its market price, which would be repayable on subsequent sale;
- (iv) flexiowners would be free to purchase further equity gradually;
- (v) the flexiowner (and heirs) would covenant to maintain the property.

3. A scheme would also contain provision for a free initial discount related to but less than the RTB discount and subject to a ceiling further equity would accrue to the owner in the form of a one percent bonus for each year he continued as owner. But the Group could not agree on the size of discount or on a ceiling for bonus points and both these issues will be highlighted in the report.

4. The report will also discuss the form of a special scheme for the elderly which would not require them to take out mortgages, and whether existing safeguards on abuse of social security benefits are adequate.

Financial Appraisal

5. The PSBR impact of the options has been appraised in terms of net present value and in terms of annual figures over the first seven years. Three main options have been considered:

- (i) a generous scheme with high initial discount and bonus point ceiling, supported by the Welsh (and, less emphatically, by the Scots);
- (ii) a low initial discount scheme with a low bonus point ceiling, supported by DOE;
- (iii) a version of (i) including a special scheme for the elderly, which is the Welsh Office first choice.

6. Each option is analysed against two opposed broad behavioural assumptions used in the last assessment, ie that:

- (i) tenants are most heavily influenced by the prospect of capital gains, minimising switching from conventional RTB;
- (ii) tenants are more concerned about cash in hand, maximising RTB switching.

7. The appraisal has worsened substantially since last time round. First, because RTB sales have proved even more buoyant than then assumed (the difference between 1987 and 1988 Survey estimates). Secondly, because research has demonstrated that for more of the elderly are already choosing RTB than previously assumed. Thirdly, because some economic assumptions have changed. Unless one assumes high levels of voluntary equity purchase or low replacement of subsidised housing the NPVs are generally broadly neutral or have a cost for each option, except the less generous DOE approach, where there is a NPV advantage. However, the report will highlight the sensitivity of any NPV conclusions to the assumption used and the attendant risks. In terms of the first seven years, savings are available with each option if we assume that tenants' most desire capital gains. But if we assume greater interest in cash in hand (which we and DOE believe more likely) there is a large short term cost, mainly through a fall in capital receipts.

Conclusion

8. In Treasury terms, therefore, this all remains a thoroughly risky deal, at least until RTB receipts are well and truly drying up. The less generous the terms of the scheme the better it would be, so the DOE option looks the best bet. But even that would need to be delayed for at least two to three years to avoid the worst implications for receipts. The Welsh option and the inclusion of a scheme for the elderly (which would in effect simply excuse the elderly from paying any more rent and would give

them an equity stake) would give the worst financial outcome; although if one is simply aiming for maximum take up, as the Welsh and Scots seem to be, it would have the greatest impact .

9. The best outcome for the Treasury would be agreement that it would be premature to introduce such a scheme in the foreseeable future. Failing that we should at least seek to ensure that any decision to go ahead does not include early implementation. We can argue strongly that this is just the wrong time to introduce a scheme given the success of RTB and the buoyancy of receipts. The paper from Cabinet Office will include proposals from Wales and Scotland for early experimental schemes there. They need far more working up and costing (they may prove unworkable without legislation) so we may be able to defer any decision until further work has taken place. But, as the thin end of the wedge, we would also need to oppose an experiment at this early stage. If colleagues did decide that experiments could be worthwhile, you would need to insist that costs should be met within existing block provision.

Mark Betenson

M C BETENSON

UNCLASSIFIED

FROM: RUTH KOSMIN
 DATE: 1 DECEMBER 1988

CHANCELLOR -

cc Sir P Middleton
 Sir T Burns
 Mr Scholar
 Mrs Lomax
 Mr Odling-Smee
 Mr Sedgewick
 Mr Peretz
 Mr Hibberd
 Mr Grice

HOUSE PRICES: RICS SURVEY

You requested some information on the reliability of the RICS Housing Market questionnaires.

2. The Royal Institution of Chartered Surveyors has produced a survey of the housing market in England and Wales on a monthly basis ever since 1979, and on a quarterly basis since the early 1970's. The RICS distributes some 430 questionnaires monthly to estate agents in each of 10 regions. It asks them to consider the housing market in their area over the last 3 months, and to report changes in house prices of the following magnitudes:-

- | | |
|----------------------|---------------------|
| i. very much higher | (appox. 8% or more) |
| ii. much higher | (appox. 5%) |
| iii. slightly higher | (appox. 2%) |
| iv. the same | |
| v. lower | |

They are also invited to make general comments on the market conditions they currently face, and to discuss the likely changes for the near future.

3. The list of 430 agents covers a wide range from small independent firms of chartered surveyors through to the larger groups such as the Prudential, and has been set up to provide a comprehensive representation around the country. The response rate, however, is generally less than 50%, and can be affected

Ch
This doesnt tell you much at all. No numerical analysis

AA

Pls let me see a chart of prices since 1979.

quite significantly by seasonal or ad hoc factors such as Christmas or summer holidays, postal strikes etc. In the latest October survey, a total of only 188 agents contributed out of the 430 potential respondents (less than 44%). The response rate in the summer months was considerably lower, with only 97 returns for August and 100 for September (23% in each case). This uncertainty of the response limits any detailed analysis of the results.

4. The results of the survey are presented each month in tabular form for different house types both for England and Wales as a whole and for one of the 10 regions. The regional coverage rotates, so that a particular region is analysed in every tenth survey. The results are recorded as a comparison with average prices three months before, and could thus provide an indication of trends.

5. In addition to the tabular presentation, the survey sets out brief anecdotal comments from the various named respondents, on a regional basis. These responses are often of more interest, since they give a picture of the current situation and an indication of likely movements in the near future in the particular localised areas covered by the respondents.

6. Although the survey is thus a very useful and timely source of alternative information on movements in house prices and the housing market which differs from the traditional sources based on the building societies, it must be treated with some caution and should not be used for anything other than broad brush comparisons. There is considerable difficulty in converting such questionnaire survey evidence into a numerical form that could then be compared for reliability with the building society house price series, and as far as I am aware no formal test has even been done.

7. Due to the relatively poor response rate, and the consequent uneven regional coverage, it is difficult to interpret any trends over time. It has proved to be the case in the past, however, that where comments from a region have been unanimous, or nearly so, they have been correct, but where differences exist the

impossibility of any kind of weighting makes it difficult to interpret. A change of pace in house prices, if not in direction, is therefore not easy to discern.

Ruth Kosmin

RUTH KOSMIN



CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270

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CHIEF SECRETARY	
REC	101788
Mr SN Wood	
EX Mr Anson	
Mr H Phillips	
Mr Edwards	
Mr Betenson	

P 03295

P Gray Esq
10 Downing Street

2 December 1988

Dear Paul,

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

I attach a further paper by officials on this subject for discussion in the small group of Ministers at its next meeting on Thursday 8 December. The paper has been prepared in consultation with the Departments represented on the group, and has been cleared with them.

I am copying this letter and the paper to the private secretaries to the Secretary of State for Wales, the Secretary of State for the Environment, the Secretary of State for Scotland, the Secretary of State for Social Security, the Chief Secretary and the Minister for Housing and Planning, and to Brian Griffiths.

Yours ever,

Richard

R T J WILSON

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HOUSING POLICY

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

Note by the Cabinet Office

1. At the Group's meeting on 21 July we were asked to do further work on a revised flexi-ownership scheme, drawing on the three sets of proposals which the Group had considered, with a view to producing a single scheme. We were also asked to consider how to ensure that flexi-owners gave up the right to claim housing benefit at a later date; and to explore what could be achieved under existing legislation. The attached Note by Officials records the outcome of this further work.

A Single Scheme

2. The official group have been able to agree many of the features of a single flexi-ownership scheme. These are set out in paragraph 2 of the Note by Officials. Ministers are invited to endorse them as the basis for any flexi-ownership scheme.

3. There are however a number of key issues on which Ministerial decisions are needed:

i. how generous the scheme should be. This affects in particular the level of the free initial discount to be offered to flexi-owners, and the maximum number of bonus points they can earn by staying in the house. The issues and their financial effects are explored in paragraphs 4-10 of the attached Note;

ii. whether there should be a special scheme for older tenants, under which those above retirement age would not be required to convert their rents into mortgages in order to become flexi-owners. The implications of such a scheme and the financial effects are explored in paragraphs 11-14 of the attached Note;

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HOUSING POLICY

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

Note by Officials

1. This paper reflects the outcome of further work by officials, following the Ministerial Group's meeting on 21 July. In the interests of readability we refer to 'houses' rather than 'dwellings'; but any flexi-ownership scheme would also cover flats.

AGREED FEATURES OF A SINGLE SCHEME

2. The features which we have been able to agree are as follows:

i. eligibility. This would be the same as for Right-to-Buy (RTB). The normal requirement would be 2 years as a tenant. A tenant who exercised his flexi-ownership right would become the legal owner of his house, subject to certain legal charges on it;

ii. flexi-owner's mortgage. A flexi-owner would cease to pay rent, but would be required to take out a normal commercial mortgage (secured by a charge on the house) with repayments broadly equal to his current rent, less £5 per week to allow for maintenance, or make an equivalent payment from savings. He could of course take out a larger mortgage or pay more from savings if he wished. The capital sum raised would be used to buy a proportion of the house at its current market price;

iii. free initial discount. In addition the tenant would be given an initial discount, related to but less than the Right-to-Buy discount, so that he would own a proportion of the house free from any legal charge on the property from the outset. The size of this discount is one of the issues which needs to be decided (see below);

i. option I, under which the flexi-owner would buy a proportion of the property, calculated at the full market price, to which would be added an initial discount, equal to his Right-to-Buy discount minus 10 percentage points. He would subsequently receive one percentage point of additional equity every year until the total free equity (initial discount plus bonus points) reached the maximum RTB discount minus 10% (50% for a house);

ii. option II, under which a flexi-owner who paid X% of the Right-to-Buy discounted price for his house would get X% of the equity. This would mean that he got X% of his RTB discount. He would subsequently receive one percentage point of additional equity every year until his total stake in the house (including the stake he had originally paid for) reached the maximum RTB discount (60% for a house).

The implications of these two options for the equity stake of typical flexi-owners are shown in Annex A.

5. Option I, under which the tenant's initial free discount is equal to his Right-to-Buy (RTB) discount minus 10 percentage points, has the following main advantages:

i. it is reasonably generous, which might encourage substantial take-up by tenants who cannot afford RTB. It offers most tenants a reasonable share of their properties, and therefore a substantial step towards full ownership, even in high price areas like London and the South East;

ii. it can readily be extended into a special scheme for older tenants, either immediately or at some future date. They would be exempted from the requirement to take out a flexi-owner's mortgage. Their initial equity share would simply be the initial free discount (RTB minus 10%).

i. it might not be generous enough to generate substantial take-up among those who could not afford RTB. This might particularly apply in Scotland, where there is a strong tradition of renting from the public sector. But there could also be problems in high-price areas, because most tenants in these areas would be credited with only a minority stake in their houses. Moreover, the inclusion of the stake initially purchased within the 60% ceiling on bonus points would restrict the maximum discount for flexi-owners, particularly in areas where house prices were low;

ii. although there could be a special scheme for older tenants, as with option I, such a scheme would fit less well with the structure of option II and so could appear arbitrary.

9. The PSBR implications of option I (both with and without special terms for the elderly) and option II are shown in Annex B. Ministers should note that the results of the new financial appraisal are generally less favourable than the figures provided in our July report, for the following main reasons:

i. higher forecast receipts from RTB reflecting the latest actual figures, which were not available in July. The new figures are consistent with PES assumptions;

ii. higher assumed take up of RTB by older tenants reflecting an analysis of actual RTB sales which was not available in July;

iii. revised RPI and house price inflation assumptions provided by the Treasury in October.

Ministers should note that the assumptions are purely illustrative and represent only a series of guesses about what might happen. The calculations are very sensitive to what assumptions are made and should not be interpreted as forecasts of what is likely to happen in practice.

discount: the whole of the value of the house not covered by the discount entitlement would be covered by the public sector charge.

12. The main advantages of such a scheme for the elderly are:

i. it would open flexi-ownership to all tenants over retirement age who thought they could afford the cost of upkeep. Take-up is hard to predict, but under Case A we have assumed that 50% of tenants in the age group on full housing benefit and 60% of those on the taper would become flexi-owners. It would also help many older tenants with incomes above benefit levels who would find it difficult to get mortgages;

ii. it is the only part of the revised flexi-ownership proposals which could substantially cut the caseload of the rent rebate system, reducing the dependency culture and the poverty trap. Many flexi-owners would however remain eligible for community charge rebates;

iii. many more elderly tenants would have the chance to own significant assets, which they could pass on to their heirs, potentially reducing dependency in the next generation.

13. The main disadvantages are:

i. it could attract some older tenants who were incapable of managing repair and maintenance, and who could not get help from relatives. That could increase the number of elderly people in poor housing, with eventual pressure for Government assistance;

ii. the main financial benefits would accrue to the heirs of older tenants rather than to the tenants themselves. It is not obvious why the heirs should benefit from such a quickly realisable capital gain, and this could be difficult to defend;

iii. it would remove from the public sector those dwellings most likely to be available for re-letting in the short to medium

up with capital of more than £8000 and would automatically be barred from receipt of housing benefit. Such tenants might qualify for benefit eventually as their savings were eroded, though if they ran down their savings specifically to get benefit they would still be treated as possessing the capital for housing benefit purposes. As a further check against abuse in the period immediately after a tenant becomes a flexi-owner, we propose a discount repayment covenant of the sort made under RTB. This would provide for a proportion of the discount to be repaid in the case of early disposal. This approach would follow the RTB scheme, and act as an effective deterrent to deliberate abuse

17. There is a separate issue of the extent to which income support should be available to meet part of the costs of any mortgage taken out to cover the cost of flexi-ownership. Under present rules, if a flexi-owner subsequently became eligible for income support (for example through unemployment or retirement), he would be entitled to help with the interest costs of any mortgage. An existing income support recipient who becomes an owner-occupier is entitled to help with mortgage interest up to the amount he currently receives as a rent rebate. This would mean that he could become a flexi-owner with virtually all the initial cost met by the State. Ministers will wish to consider whether these arrangements are acceptable, or whether further work should be commissioned on the possibility of restricting income support payments in these circumstances.

18. A final social security issue for possible later consideration is the availability of benefit to cover service charges in flats. At present, a tenant can receive help with these charges but an owner-occupier not on income support cannot. This could act as a disincentive to flexi-ownership of flats which could significantly reduce take-up of the scheme, particularly in London where 80% of local authority tenants are in flats. On the other hand any extension of eligibility could have much wider consequences. Ministers will wish to consider whether this issue should be explored in greater detail.

22. The main disadvantages would be:

- i. tenants in other areas, eg England, would resent being excluded from the new scheme, particularly if the scheme were successfully presented as an important new right;
- ii. a scheme introduced without new legislation would be constrained by the terms of existing powers and, if unsuccessful, might discredit the idea before it was properly launched.

23. Ministers will wish to decide whether the possibility of experimental schemes under existing powers should be pursued.

TIMING

24. Whether Ministers decide to introduce experimental schemes or to proceed straight to a full legislative scheme, issues of timing arise. Conventional Right-to-Buy sales are currently very buoyant, particularly in England and Wales. Some tapering down has been forecast for the rest of the current PES period and beyond. But RTB receipts at risk to loss through switching to flexi-ownership will still amount to billions of pounds in the early 1990s; and forecasts of RTB receipts have regularly proved to be pessimistic in the past. The later a new scheme is introduced, the less the potential loss of capital receipts to the Exchequer.

25. Ministers will want to consider whether to proceed quickly with a flexi-ownership scheme, or to defer introduction until RTB sales fall off.

CABINET OFFICE

2 December 1988

SUMMARY OF FINANCIAL RESULTS

Tables I, II, and III show the financial results, on assumptions specified, of Option I with and without special terms for older tenants, and of Option II. The cash flows are shown, in cash terms, in years 1, 2, 3, 4, and 7; and the net present values (NPV) at year 1 prices. The figures refer to England and Wales except where noted.

2. Financial results are shown including and excluding partial replacement of the houses that would have become available for re-letting to new tenants by local authorities if they had not been transferred to flexi-ownership. In England two-thirds of the lost re-lets are assumed to be replaced. The replacement is by housing associations, with mixed funding and the grant rates for 1988/89.

3. Financial results are also shown excluding and including voluntary purchases of equity, over and above the minimum that is required. The amounts of voluntary equity purchase assumed are:

(a) Right-to-Buy purchasers who switched to flexi-ownership or RTM would put into voluntary equity purchase one-half of the difference between the mortgage outgoings on the flexi-ownership/RTM minimum payment and the outgoings they would have incurred to exercise RTB, increased each year in line with earnings, for the term of the mortgage.

(b) Other households would put into equity purchase one half of the difference between outgoings for flexi-ownership/RTM (mortgage outgoings and upkeep) and the rent they would have paid had they stayed as tenants.

II. OPTION I WITH NO SPECIAL TERMS FOR OLDER TENANTS

		(£ million)						
		.....Years.....						
<u>Case A</u>		1	2	3	4	...7	NPV	NPV Inclu- ding Scot- land
(i)	No replacement no voluntary equity purchase	+397	+1,084	+950	+862	+509	+6,757 (a)	+7,073
(ii)	Includes replacement, no voluntary equity purchase	+397	+1,066	+881	+744	+263	+15	-17
(iii)	Includes replacement, voluntary equity purchase at all ages	+398	+1,070	+893	+762	+312	+486	n.a.
<u>Case B</u>								
(iv)	No replacement, no voluntary equity purchase	-788	-354	-328	-204	-202	+1,182 (b)	+1,100
(v)	Includes replacement, no voluntary equity purchase	-788	-367	-376	-285	-371	-1,929	-2,085
(vi)	Includes replacement voluntary equity purchase at all ages	-772	-314	-389	-168	-165	-276 (c)	n.a.

Notes: (a) No replacement but with assumed voluntary equity purchase would give +7,228

(b) No replacement but with assumed voluntary equity purchase would give +2,835

(c) If voluntary equity purchase were assumed to be one-quarter instead of one half of the reduction in outgoings, the figure would be -1,103

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ANNEX C

PROPOSED EXPERIMENTAL FLEXI-OWNERSHIP SCHEME TO BE OPERATED IN SCOTLAND BY SCOTTISH HOMES

1. The Scottish Office proposes to introduce an experimental flexi-ownership scheme under the powers available to Scottish Homes under the provisions of the Housing (Scotland) Act 1988. The scheme could begin operation during the 1989-90 financial year.
2. Scottish Homes will be a Non-Departmental Public Body, which will be formally established in December 1988 and which from 1 April 1989 will assume the functions of the Scottish Special Housing Association and the Housing Corporation in Scotland. It is designated under the Housing (Scotland) Act 1988 as an approved landlord, so that local authority and New Town tenants may elect to transfer to a Scottish Homes tenancy (under Tenants' Choice). Its tenants will however be protected tenants; hence they will retain their statutory right to buy. Scottish Homes will have very wide powers, in accordance with arrangements made by the Secretary of State, to dispose of houses which it holds and, subject to the approval of the Secretary of State and the Treasury, to give loans. Scottish Homes also has a general function of:

"Promoting owner occupation (especially by those seeking to purchase for the first time) [and] the wider ownership of housing by its occupants ..."
3. These powers are sufficiently wide to encompass a scheme on the lines described in the main paper or any variant which might be agreed (other than the special scheme for the elderly which is dependent on interaction with the benefit rules etc operated through DSS and would have to be implemented on a national basis).
4. The Secretary of State would direct/request Scottish Homes to introduce a flexi-ownership scheme for its tenants. The scope for the Scottish new towns operating a similar scheme under the Secretary of State's direction is being considered separately. The scheme would not extend to local authorities. Tenants of local authorities who wished to participate could exercise Tenants' Choice and transfer to Scottish Homes and hence become eligible. Take-up is impossible to predict with any degree of reliability but the aim would be to attract significant numbers of the 75,000 tenants inherited by Scottish Homes from the Scottish Special Housing Association.
5. Under Scottish law, transactions under the scheme would take the following form:-

FLEXI-OWNERSHIP IN WALES USING EXISTING STATUTORY POWERS

1. The basis of the scheme would be that the Secretary of State would authorise local authorities to dispose of dwellings to tenants qualifying for the Right to Buy.

Left to their own devices, few authorities would implement flexi-ownership on a permissive basis. However the Secretary of State would request Housing for Wales to make the flexi-ownership option available to all local authority tenants transferring to registered housing associations under Tenants' Choice.

2. S32 of the Housing Act 1985 empowers a local authority to dispose of dwellings, and S32(2) provides that the disposal may be effected in any manner, while S33(1) provides that the local authority may impose such conditions as they see fit. It is believed these provisions give local authorities the ability to dispose of dwellings on the contractual basis which appears appropriate to them, including the deferral of part of the purchase price on index-linked or equity-sharing terms. S34(4) gives a wide power to the Secretary of State to consent to disposals with conditions attaching to price and discount; no difficulty is seen in such conditions extending to a share of the proceeds on subsequent disposal.

In short, it is believed that the local authority has the legal ability to dispose of dwellings on flexi-ownership terms provided they have the Secretary of State's consent; and the Secretary of State in turn has the ability to frame his consent in such a way that dwellings are disposed of on the flexi-ownership terms which he intends.

3. As to the offer of the flexi-ownership option to tenants of registered housing associations who have transferred under Tenants' Choice: S79(2) of the Housing Associations Act 1985 gives Housing for Wales power to lend to tenants of registered housing associations for the purpose of enabling them to acquire a legal estate or interest in their home. S79(4) provides that the terms of a S79 loan shall be such as the Corporation may determine, either generally or in a particular case. The discretion of Housing for Wales in this regard is subject only to the general power of the Secretary of State to give directions. It is believed that it is well within this discretion to defer repayment of the loan until the dwelling is sold; and rather than charge interest, index the capital sum in line with house prices or express it as a proportion of the equity in the dwelling.



FROM: A C S ALLAN

DATE: 5 December 1988

pay

MRS KOSMIN

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mrs Lomax
Mr Odling-Smee
Mr Sedgwick
Mr Peretz
Mr Hibberd
Mr Grice

HOUSE PRICES: RICS SURVEY

The Chancellor was grateful for your minute of 1 December. He would be grateful if you could produce a chart of the monthly series since 1979 - I leave it to you to judge how best to present the information graphically.

ACSA

A C S ALLAN

FROM: G F DICKSON

DATE: 16 DECEMBER 1988

MR A C S ALLAN

cc Mr Ilett
Mr Ritchie
Dr Kosmin

NATIONAL AVERAGE HOUSE PRICE GRAPH

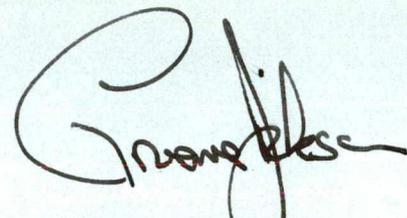
You asked for a graph showing the changes in house prices.

2. I attach a graph showing the national average house price in real terms which is taken from a report prepared by Dr Holmans at DOE. It is based on the DOE building society mortgage survey from 1966 onwards and is corrected from 1956 by the retail price index. The earlier coverage and the correction to real terms in earlier years may therefore be unreliable. The graph shows prices on an index basis rather than actual cost. I have a table showing the average cash house price at building society mortgage completion stage from 1970 to present, but no graph. I have contacted DOE to see whether they produce one.

3. I have asked Mr Ritchie whether the Halifax House Price Index graph in the monthly ^{monetary} report can be extended to the start of the series in 1983.. Dr Kosmin should be able to let you know if there are any further sources of information.

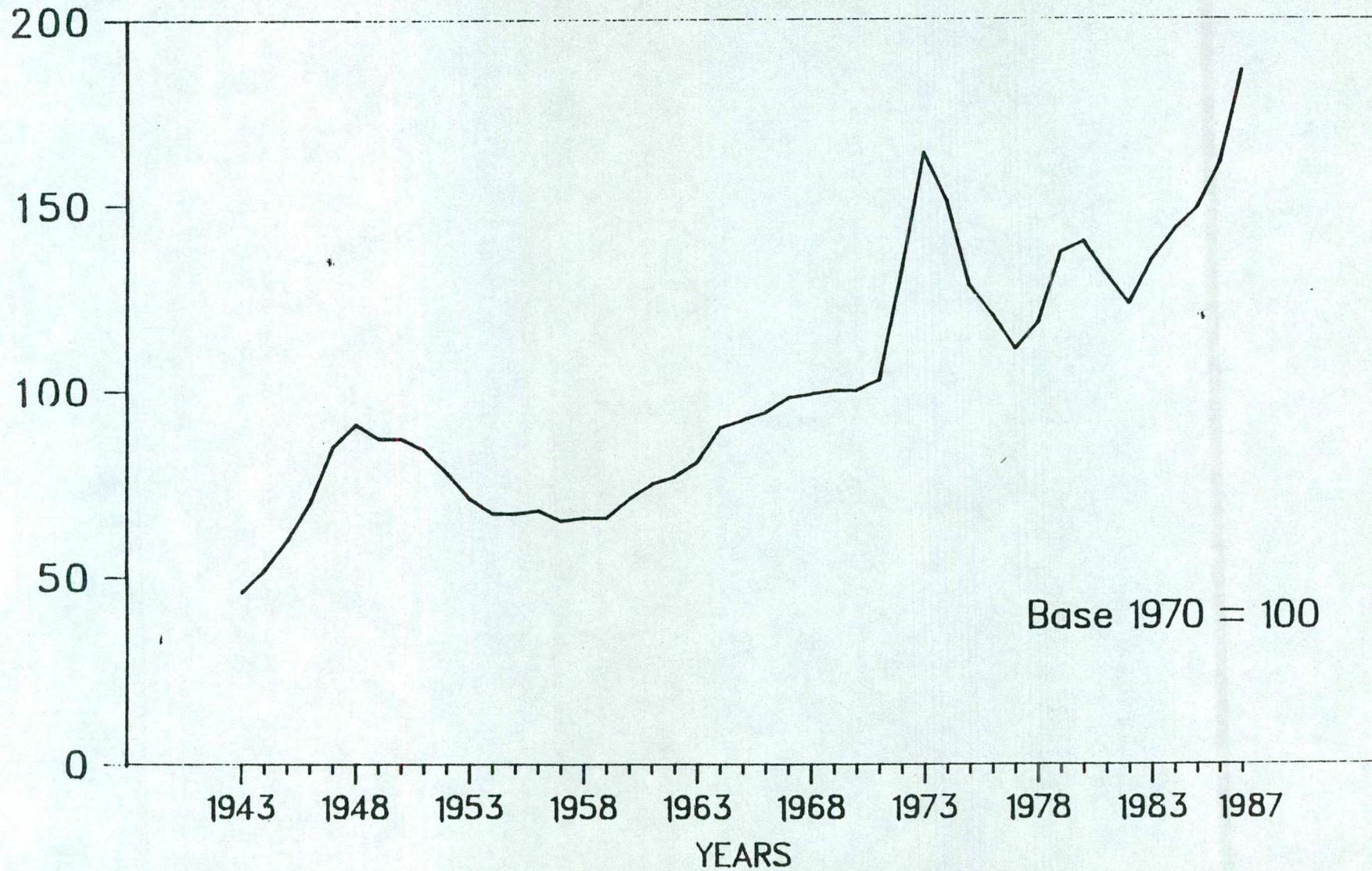
behind

Handwritten in red:
The info on the log scale;



GRAEME DICKSON

GRAPH A : NATIONAL AVERAGE HOUSE PRICES IN REAL TERMS



FROM: ALLEN RITCHIE
DATE: 16 DECEMBER 1988

MR A C S ALLAN

cc Mr Dickson
Dr Kosmin

HOUSE PRICES

I attach a chart of the Halifax House Price Index, which goes back to 1983 - when the present index started. This is the same chart that appeared in the most recent monthly monetary report, except that it covers a longer period.

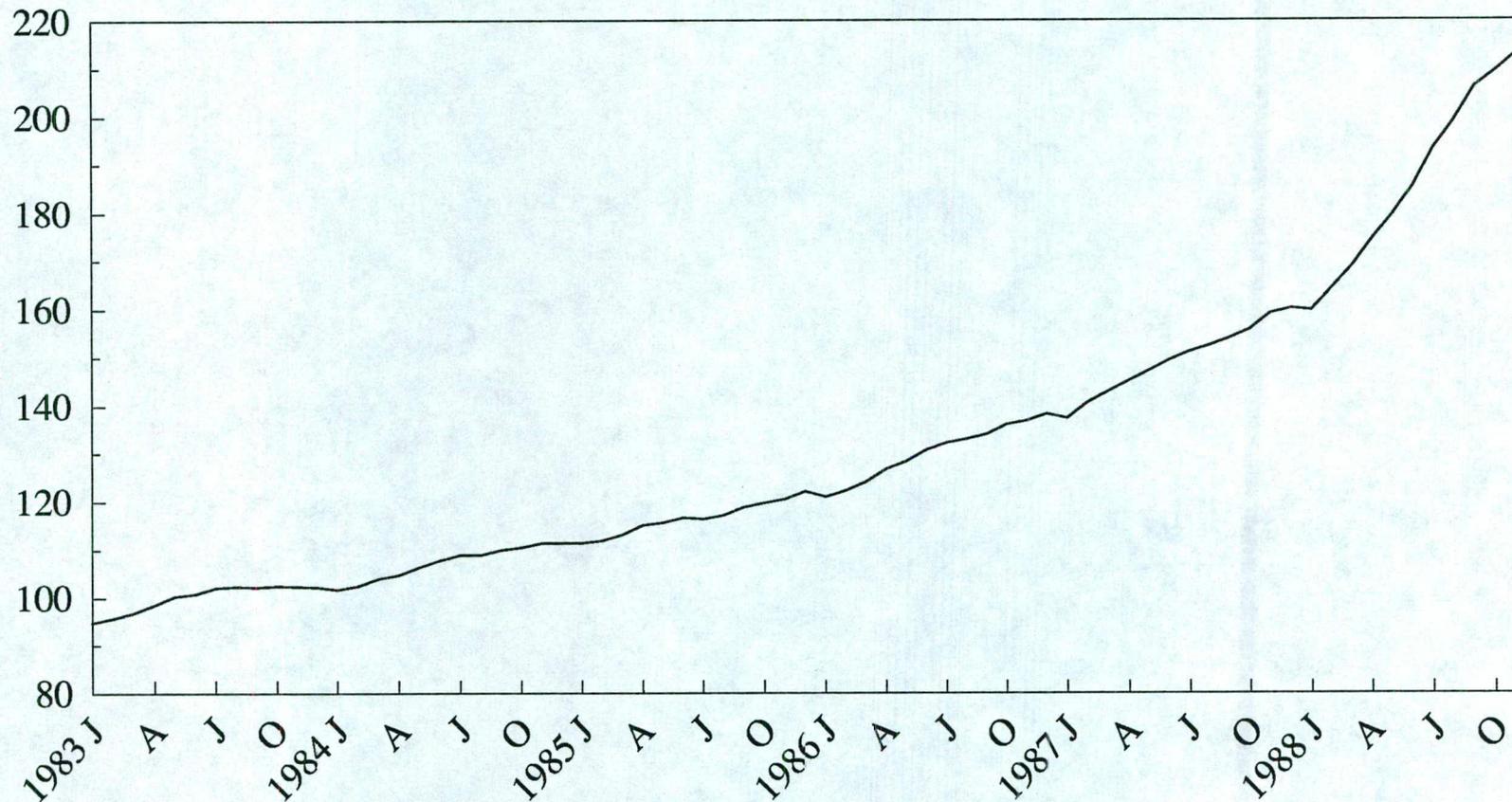
*see memo
in the log*

Scale:

Allen Ritchie

ALLEN RITCHIE
FIM2

HALIFAX HOUSE PRICE INDEX



Standardised index of all house prices
1983=100

BF 22/12



FROM: A C S ALLAN

DATE: 19 December 1988

MR RITCHIE

cc Mr Ilett
Mr Dickson
Dr Kosmin

HOUSE PRICES

The Chancellor was grateful for your minute and Mr Dickson's minute, both of 16 December. He would be most grateful if you could redo the chart of the Halifax house price index on a log scale. If it is possible to redo Mr Dickson's graph also on a log scale that, too, would be helpful.

A handwritten signature in black ink that reads "ACSA" with a long horizontal stroke extending to the right.

A C S ALLAN .



FROM: MISS M P WALLACE

DATE: 19 December 1988

BF 5/11/89
~~9/11/89~~

SIR T BURNS

Mr March
cc Sir P Middleton
Mr Byatt
Mr Scholar
Mr C W Kelly
Mr Peretz
Mr Sedgwick
Mr S J Davies
Mr C Melliss
Mrs Holmans

ch/

*no official answer yet
(fair enough) but you can
seek a preliminary comment
@ w/hg - Nick March and Ian B
had spotted this independently. mpa*

PROFESSOR MUELLBAUER ON UK HOUSE PRICES AND MIGRATION

... The Chancellor was interested to read the attached Shearson Lehman Hutton circular featuring another Muellbauer/Murphy paper. He would be grateful for an assessment, covering in particular their view that there is now substantial net migration out of the UK, with significant implications for the balance of payments. The Chancellor would be interested to know who these net emigrants are.

*pl ask Meena
who is deskrip
and find out when
a reply might be
expected*

mpa

MOIRA WALLACE

m



U.K. Economics

**U.K. House Prices and
Migration: Economic and
Investment Implications**

**John Muellbauer
Anthony Murphy**

Nuffield College, Oxford

November 30th, 1988

● Highlights

- Last year, net *regional* migration out of the South East was the highest since 1973. Our research suggests that in 1988, this figure will reach its highest level since the Blitz, perhaps 70,000 individuals, and will remain very high in 1989.
- Our model of *international* migration suggests a substantial net outflow, of around 50,000 individuals from the UK in 1988. This is likely to increase further in 1989. These outflows reverse the pattern of net immigration seen in recent years.
- These new migration patterns, are the result of rapid house price inflation, particularly in the South East. This has more than offset the attraction of rapid economic growth and a buoyant labour market. People are now cashing in their gains and moving to cheaper parts of the country or overseas.
- These migration flows have important economic and investment implications. Although they will promote stronger regional growth, the consequences for wage inflation and the brain drain are unfavourable.
- We are particularly concerned about the implications of external migration for the balance of payments. Our preliminary estimates suggest a net outflow of nearly £5 billion a year, over one percent of GDP and a third of this year's estimates of the current account deficit.
- Medium term trends in the location of new investment in the UK versus elsewhere in Europe, and for property and retailing investment in the South East will also be adversely affected by these developments. So will South East housebuilders. The latest data from the Halifax Building Society, showing that house prices in the South East have stopped rising, and from the Department of the Environment showing a downturn in housing starts, mark the beginning of these adverse trends.

I. Introduction

As the 1988 trade figures and the savings ratio suggest, many individuals have been able to cash in on the UK house price boom. Important among them are migrants: those who have moved or are moving from the South East to cheaper regions in the UK or abroad, in some cases taking early retirement to do so.

Consumer Spending

The house price boom in the UK is thus having major economic consequences. Perhaps the most obvious are the consequences for the savings ratio which the Chancellor himself acknowledged in his Mansion House speech. These effects are relatively well understood given the work on 'equity withdrawal' from the housing market pioneered by Tim Congdon in June 1982¹, and continued by the Bank of England² and by Alan Holmans³. We shall have more to say about these effects in a later report.

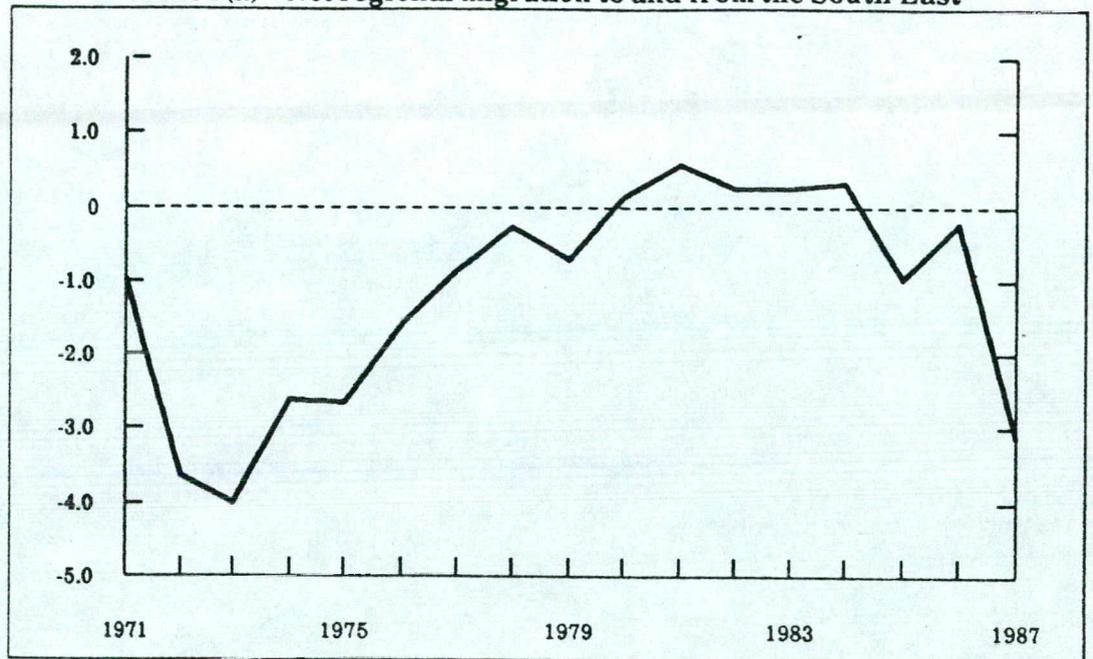
The Labour Market

In the case of the labour market we have provided evidence⁴ that the regional difference in the house price/earnings ratio in the South East relative to the rest of the UK is a major determinant of wage pressure and of labour market disequilibrium (as reflected in the UK level of unfilled vacancies relative to unemployment). The evidence is that it works with an average lag of around 2 years. Because this regional difference peaks only in 1988, some of these effects are still to come. There are, of course, other important determinants of the real wage including union density and the level and rate of change of the unemployment rate. Another is the average UK house price/wage ratio, which also operates with a lag.

Internal Migration

In our previous paper, we argued that the regional difference in the house price/earnings ratio was, in part, a proxy for regional differences in labour demand shocks. Underlying this argument is the proposition that a given increase in labour demand is more inflationary if it takes place in the South East than if it occurs elsewhere.

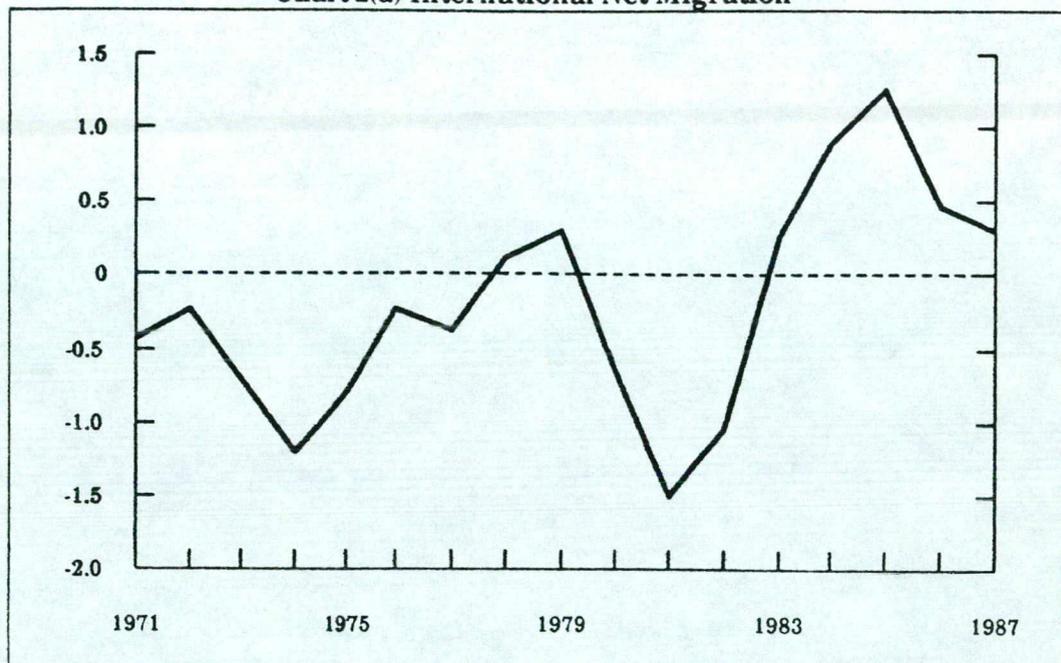
- 1 "The coming boom in housing credit", L. Messel and Co. research report.
- 2 E. P. Davis and I. D. Saville, "Mortgage lending and the housing market", Bank of England Quarterly Bulletin, Sept. 1982 p. 390-398 and S. J. Drayson, "The housing finance market: recent growth in perspective", Bank of England, Quarterly Bulletin, March 1985 p. 80-91.
- 3 A. E. Holmans, "Flow of funds associated with house purchase for owner-occupation in the UK 1977-1984 and equity withdrawal from house purchase finance", Government Economic Service Working Paper no. 92, Dec 1986.
- 4 See Bover, Muellbauer and Murphy "Housing, Wages and UK Labour Markets" CEPR Discussion Paper No. 268, August 1988".

Chart 1 (a) Net regional migration to and from the South East

However, we provided circumstantial evidence suggesting that a more structural mechanism, with consequences for migration flows and thus regional labour market imbalances, was even more important. Our present research on regional migration¹ supports this view and suggests that the regional difference in the house price/earnings ratio is the single most important determinant of migration flows.

These migration flows, are also influenced by regional differences in labour demand growth, in unemployment rates and changes in the age composition of the population. (Details are given in Section III). The tenure structure of housing influences net migration in a way which is a consistent with survey evidence. Changes in international net migration into the UK affect regional migration: since international migration is disproportionately to and from the South East, increased net immigration into the UK tends to crowd out some of the regional migration to the South East, (and vice versa).

¹ Supported by the ESRC Grant B00220012

Chart 2(a) International Net Migration**International Migration**

The national house price/earnings ratio is a major influence on net international migration into the UK. Details of our work on this are given in Section IV. Relative growth and the labour market situation in the UK compared with other major economies have important effects on net international migration. With the UK recovering from the 1980-1 recession, 1983-5 saw a sharp pick-up of net inward migration - as shown in Chart 2(a) above. A rising house price/earnings ratio in the UK dampened this in 1986-7. For 1988, we predict a net outflow of around 50,000, with an even larger net outflow in 1989.

International migration into the UK affects the South East disproportionately so that the net outflow from the South East outside the UK is likely to be around 30,000 individuals in 1988. This is in addition to the loss from internal migration. The total net loss of population in the South East from migration in 1988 could therefore easily be 100,000 individuals.

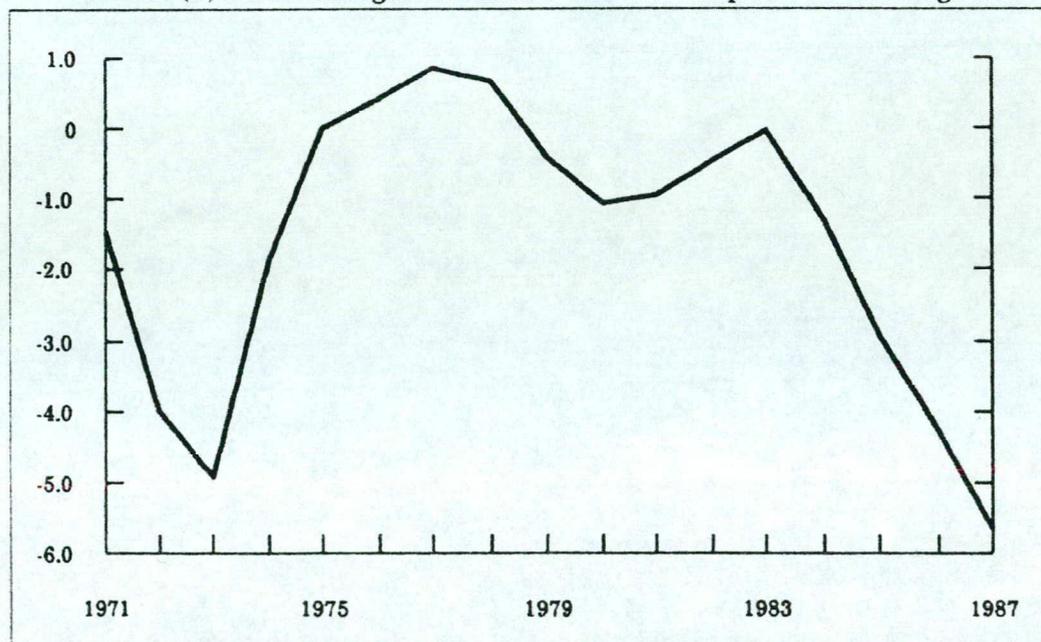
The migration patterns of recent years suggest that, within the South East, this net loss of population is falling disproportionately on London. Indeed, in recent years the net migration flow from London to the Rest of the South East has more than compensated for the outflow from the Rest of the South East to the rest of the UK. However, in 1988 we believe that the Rest of the South East is, for the first time in over a decade, suffering a net migration loss to the rest of the UK.

II. Internal Migration

Two previous studies have found time series evidence for house price effects on regional migration in the UK. Harrigan, Jenkins and McGregor¹ studied net annual migration between Scotland and the rest of the UK. They found that the ratio of Scottish wages relative to wages in the rest of the UK had a positive effect while the ratio of house prices had a negative effect of about the same size. They were unable to find significant effects from relative unemployment or unfilled vacancy rates. A 1988 study by Paul Mitchell² examines migration to and from London. Mitchell used NHS Central Register data for 1976-1986 to model the moves between London and each of 9 regions, as well as the rest of the South East. He found that inward moves to London from the 9 regions depended positively on relative wages and negatively on relative house prices, while relative house prices appeared to be the major determinant of net migration between London and the rest of the South East. However, he was unable to find a satisfactory model for *net* migration with the other 9 regions.

Our econometric model of internal migration is shown in Box 1. It was fitted to OPCS data³ for 1971-1978. It passes various statistical tests and predicts well the out of sample observation from the 1966 Census.

Chart 1 (b) Effect of regional difference in house price to earnings



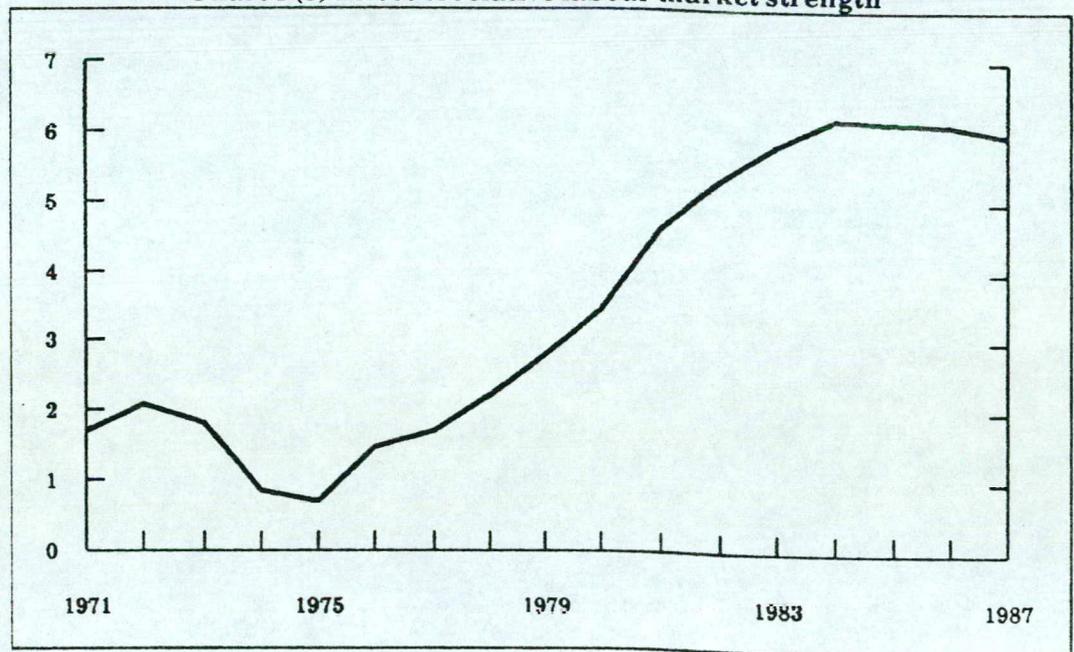
- 1 F. J. Harrigan, J. Jenkins and P. G. McGregor "A behavioural model of migration: an evaluation of neoclassical and Keynesian alternatives", Discussion Paper 42, Fraser of Allander Institute, University of Strathclyde, 1986.
- 2 P. Mitchell "Modelling migration to and from London using the NHSCR", London Chamber of Commerce. Paper presented to the Regional Science Association workshop on regional demography, April 1988.
- 3 Derived from the NHS Central Register which records moves of patients between GP's. Refer to the appendix for further details of the data.

The Economic Model

The main influences are demonstrated visually in Chart 1. Panel (a) on page 4 shows net regional migration (measured at end year) out of the South East scaled by the South East's population. Note the large net outflows in the early 1970s with the Barber house price boom and also the sharp increase in 1987. The other panels show the estimated contributions of the explanatory analysis using the same scale.

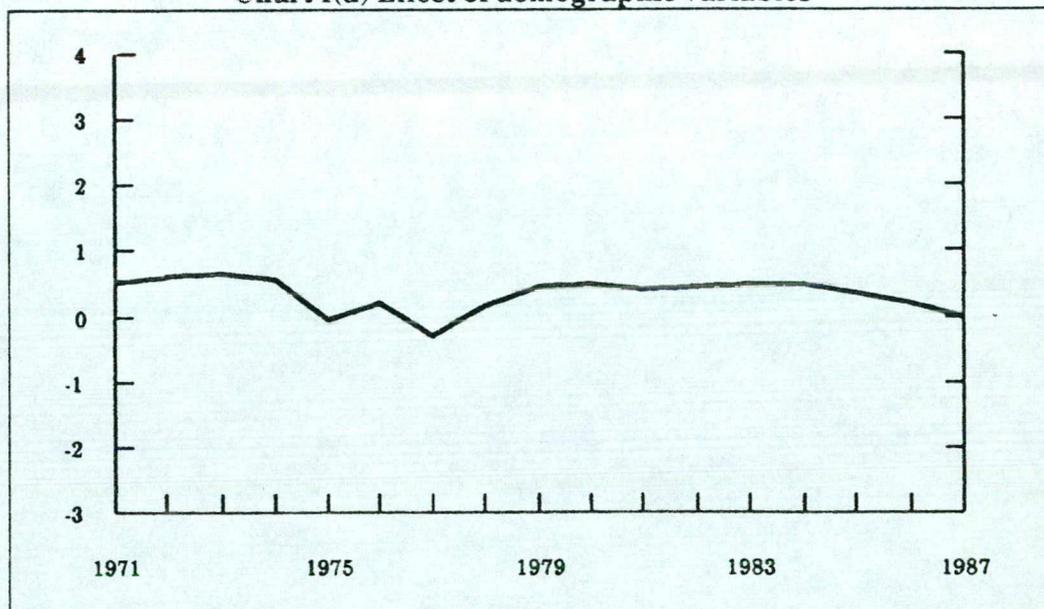
Panel (b) shows how much of the variation in net regional migration is accounted for by the two year average of the regional difference in the house price/earnings ratio, weighted by the UK proportion of owner occupiers.¹ Not surprisingly, high relative house prices encourage those able to move out of the South East (who, on average are older than immigrants) to cash in, while high house prices relative to earnings discourage immigrants, especially those without the capital to get a rung up on the South East's housing ladder.

Chart 1 (c) Effect of relative labour market strength



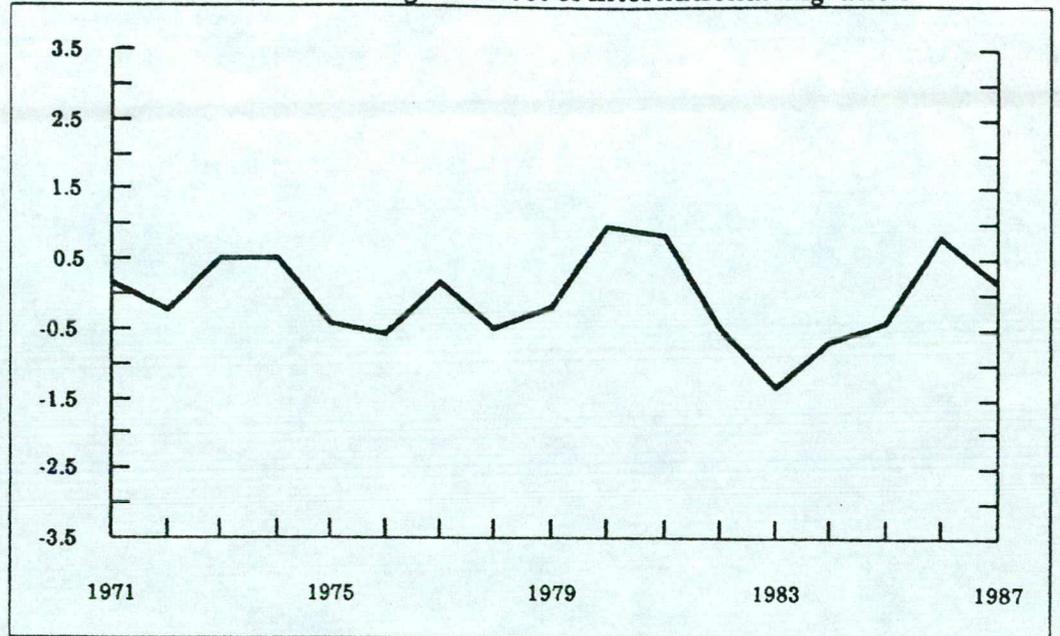
Panel (c) shows the combination of two major labour market influences on net migration: the difference in the two year employment growth rate (measured mid year to mid year) between the South East and the UK, and, the regional difference in the unemployment rate two years previously. As one would expect, higher employment growth in the South East and a lower unemployment rate compared with elsewhere in the UK, exert a significant pull on migrants to the South East as well as discouraging outward migration from the South East.

¹ See Bover, Muellbauer and Murphy, *op. cit.*, for a precise definition.

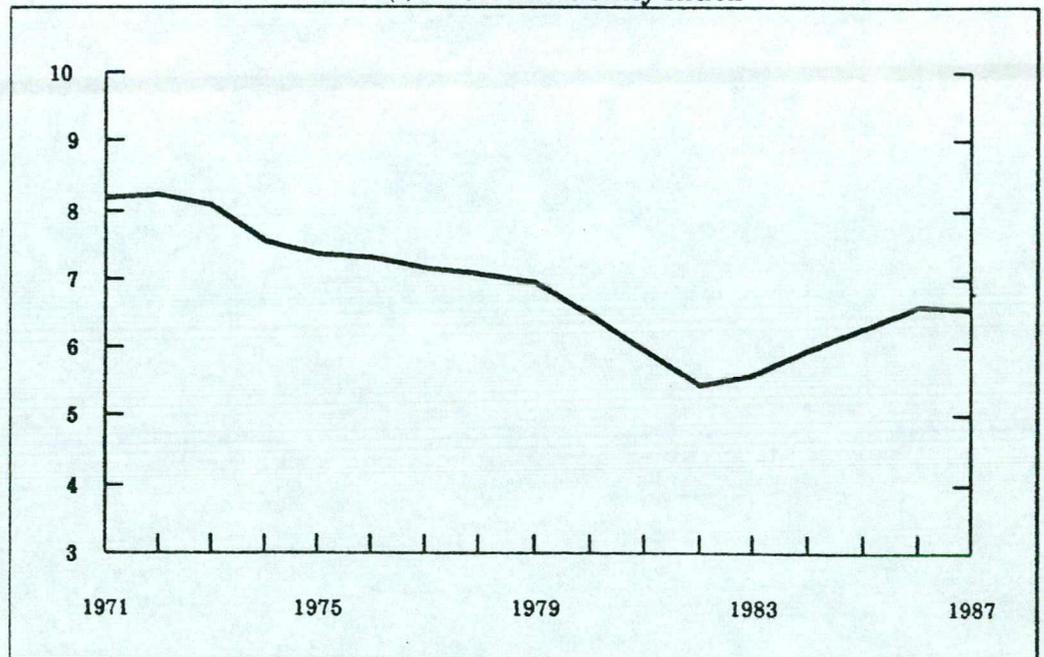
Chart 1(d) Effect of demographic variables

Changes in the age structure of the population also matter. We know that immigrants into the South East are, on average, younger than emigrants (See Appendix). An increase in the proportion of 15-29 year olds thus increases net migration into the South East while an increase in the proportion of 55-69 year olds decreases it. Panel (d) below shows the combined effect. Moreover, we have evidence that the latter effect is amplified by a higher regional difference in the house-price/to earnings ratio. This interaction effect has been incorporated in Panel (b).

Chart 1 (e) Crowding out effect of international migration



An interesting crowding out or crowding in effect takes place through international migration into the UK. Since this tends to be disproportionately with the South East, an increase in net international immigration into the UK tends to displace part of regional immigration into the South East. This is shown in panel (e).

Chart 1(f) Effect of Mobility Index

Finally, panel (f) shows the effect of a labour mobility index (see Bover, Muellbauer and Murphy, op. cit.) which incorporates changes in the tenure structure of housing given what is known from survey data about the migration propensities associated with different tenure groups. (For example, it is known that council tenants have lower migration rates even when one corrects for their socioeconomic characteristics). We also have evidence that a high national unemployment rate reduces *gross* flows of migrants but apparently this has little impact on regional *net* migration.

Projection for 1988 and 1989

Our reason for expecting a record net outflow from the South East to the rest of the UK this year is that the 1987-8 average of the regional difference in the house price/earnings ratio reaches an all time peak, while the relative rate of employment growth in the South East is lower than in 1987.¹ Our model suggests that these factors dominate the reduced crowding out from lower international immigration into the UK and the further increase in the South East's relative earnings in 1988. As an order of magnitude, we expect the South East to lose about 70,000 individuals in 1988 through regional migration. The standard error of this forecast is 8000 assuming that our forecasts for the values of the explanatory variables in 1988 are correct.

¹ This is itself partly the result of higher wages and land prices in the South East.

BOX 1 Net Regional Migration to the South East

Our equation estimated on NHSCR data for 1971-1987 is

$$\begin{aligned}
 \text{SMIG} = & \text{constant} - 76(\text{RD} + \text{RD}_{.1})/2 - 1.0 \Delta \text{MIG} + 55 \Delta_2 \text{LRN} - 117 \text{DU}_{.2} \\
 & (7.9) \qquad (6.1) \qquad (6.6) \qquad (6.3) \\
 & + 43 \text{MOBR} \qquad + 125 (\Delta \text{PY} - \Delta \text{PO}) + 6440 (\Delta \text{PO} - \Delta \bar{\text{PO}}) (\text{RD} + \text{RD}_{.1})/2 \\
 & (3.3) \qquad (2.5) \qquad (4.0)
 \end{aligned}$$

(the ratios shown in parentheses) adjusted R² = 0.962, standard error = 0.29, Durbin-Watson statistic = 2.58

Variable Definitions:

SMIG = 1000 × net regional migration to the South East scaled by SE population (range of SMIG is -4.01, to 0.57),

RD = difference in ln (house price/non-manual earnings) between the South East and the UK, normalized and scaled by national proportion of owner occupiers, Δ

ΔMIG = 1000 × change in international net migration into the UK scaled by UK population,

Δ₂LRN = two year percentage change in difference in employment between the South East and the UK.

DU_{.2} = difference in unemployment rate two years ago between the South East and the UK

MOBR = index of mobility based on housing tenure structure derived from cross-section survey estimates - see Bover, Muellbauer and Murphy, (1988) op.cit.

ΔPY = change in the proportion of the young (aged 15-29)

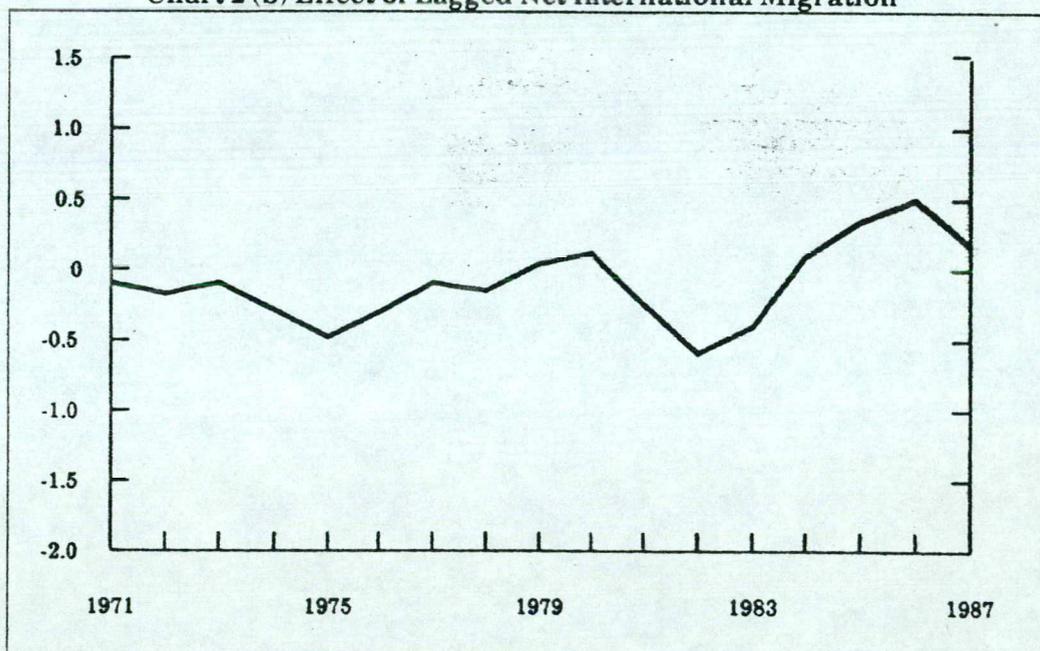
ΔPO = change in the proportion of the old (aged 55-69)

Δ $\bar{\text{PO}}$ is the average value of ΔPO.

III. International Migration

We are aware of no previous econometric work on international migration for the UK which has incorporated UK house price effects. However, a series of informative articles in *Population Trends*¹ describes and analyses how the pattern of migration flows has altered over the years and gives background literature references.

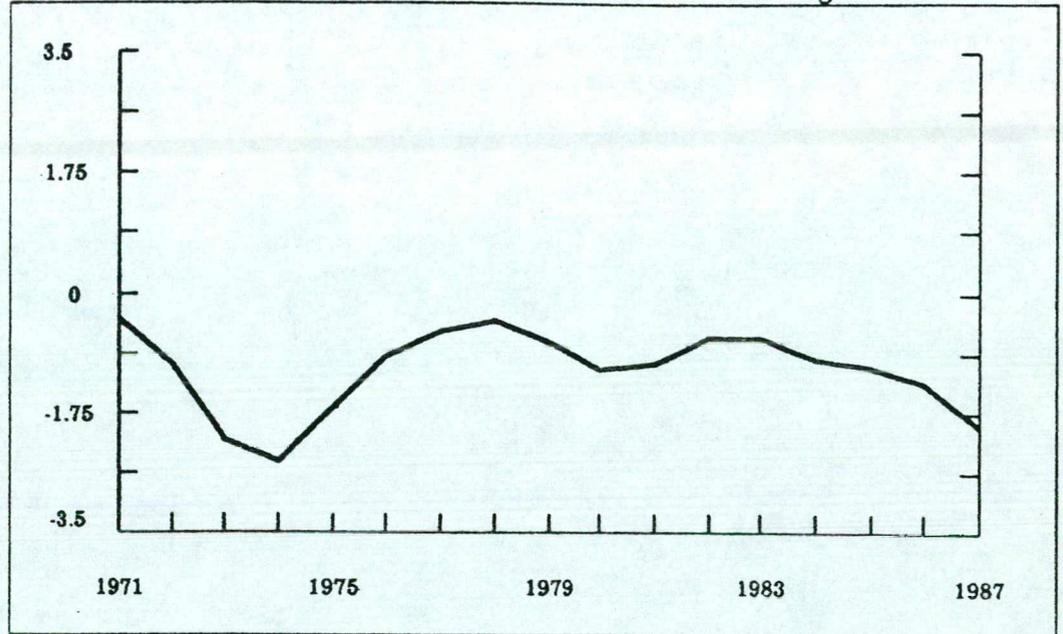
Chart 2 (b) Effect of Lagged Net International Migration



The Econometric Model

Panel (a) of Chart 2 on page 5 shows the variation since 1971 in international net migration into the UK as a proportion of the UK population. Note the large net outflows in 1973-5 which our research suggests were mainly the result of high UK house prices relative to wages or disposable incomes and the large net outflows of 1980-82 which were mainly the result of the relative severity of the UK recession. In 1983-5 substantial net inflows occurred with the recovery of the UK economy. But, despite the recent relative strength of this recovery, there were already signs in 1986 and 1987 that high UK house prices relative to wages or disposable incomes were curtailing net inward migration into the UK.

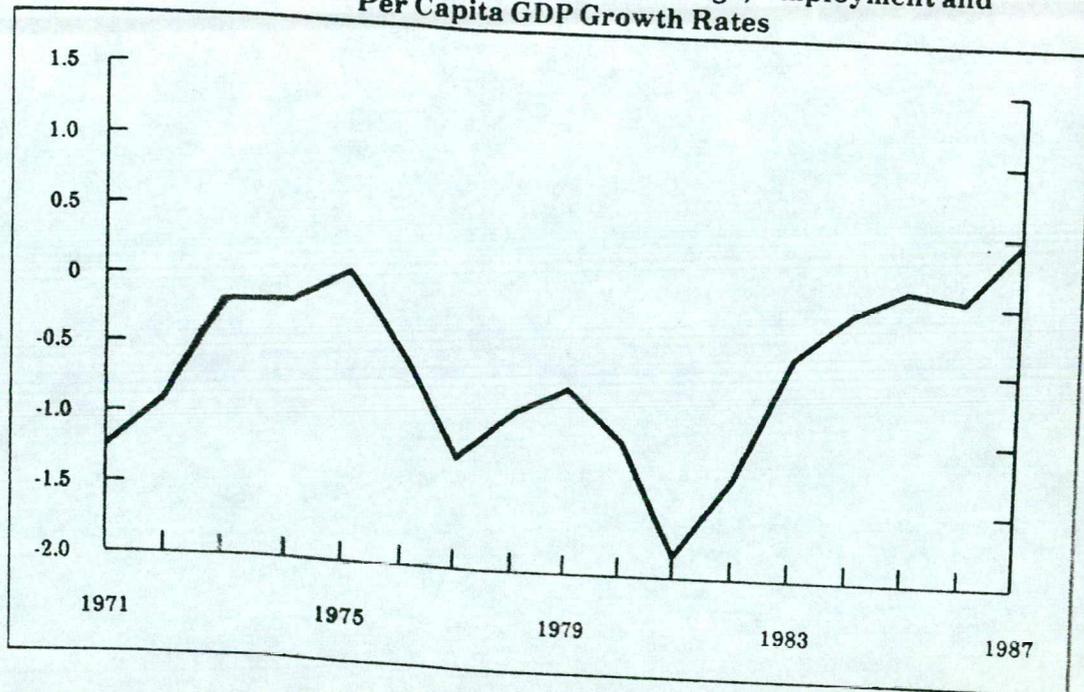
* See T Davis, "International Migration: Return migrant and remigrant flows", *Population Trends*, Autumn 1985; L Bulusu, "Recent patterns of migration from and to the United Kingdom", *Population Trends*, Winter 1986; OPCS, "Migration in 1986", *Population Trends*, Winter 1987.

Chart 2 (c) House Price effects on International Migration

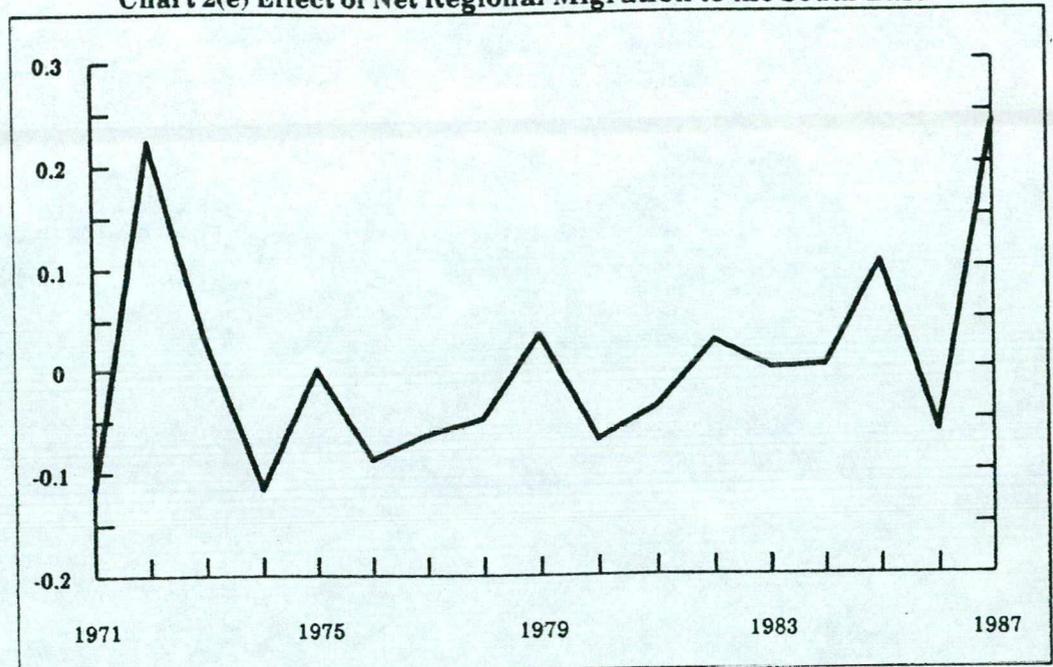
Our econometric model, is outlined in Box 2, p.16, and shows shows three major sets of influences at work on international net migration: the previous year's net migration (Shown in Chart 2, panel (b)), the two year average of the UK ratio of house prices to per capita personal disposable income weighted by the UK proportion of owner occupiers (see panel (c)) and relative growth and labour market developments in the UK compared with the G7 group of OECD countries. These latter effects are measured by relative wage growth, relative employment growth and the relative growth of real GDP per head. The combination of these effects is shown in panel (d) of Chart 2.

International Migration

Chart 2 (d) Combined Effect of Relative Wage, Employment and Per Capita GDP Growth Rates



Just as we found some crowding out from international net migration on interregional migration, so there is a small crowding out effect from interregional migration on international migration. In the short run, an increase in regional migration to the South East crowds out some international net immigration into the UK since such immigration is disproportionately with the South East. However, the effect is quantitatively not very important as panel (e) of Chart 2 shows.

Chart 2(e) Effect of Net Regional Migration to the South East**Forecast for 1988 and 1989**

To forecast net international migration in 1988, note that the house price/income ratio increased by over 20% in 1988, raising the two year average for 1988 by about 17% compared with 1987. The combined effect of relative growth and labour market developments in the UK is likely to show a small further rise compared with 1987 as the UK has continued to grow strongly. However, we suspect that slower growth in financial services in 1988 may be dampening this source of net migration though the tax cuts for higher incomes in the 1988 Budget are an offsetting factor. The effect of lagged migration in 1988 is marginally down on its value in 1987. Also, an increased regional outflow from the South East in 1988 will have a small positive effect on net external migration into the UK. Altogether, this suggests a net outflow from the UK of the order of 50,000 individuals in 1988 compared with a net inflow of 72,000 as recently as 1985. The standard error of this forecast is 12,000 assuming that our assumptions about the 1988 values of the explanatory variables are accurate.

If 60% of these 50,000 individuals come from the South East, a reasonable estimate given recent migration patterns, this implies a net loss of 30,000 from the South East through *international* migration. Together with a loss of 70,000 from net *internal* migration, this would be a net loss of population through migration of 100,000. Given a high proportion of older people, this probably means a loss of about 35,000 households. In 1987, the comparable migration loss was only around 15,000 households.

Box 2 Net International Migration to the UK

Our equation estimated on 1971-1987 data is

$$\begin{aligned} \text{MIG} = & \text{constant} + 0.39 \text{MIG}_{.1} - 13 (\text{HPY} + \text{HPY}_{.1})/2 - 0.08 \Delta \text{SMIG} - 0.32 \Delta^2 \text{DU} \\ & (2.9) \quad (6.5) \qquad \qquad \qquad (1.6) \qquad \qquad (2.0) \\ & + 0.05 \Delta \text{LRW} + 0.39 \Delta \text{LRN}_{.1} + 0.16 \Delta_3 \text{GDP} \\ & (1.8) \qquad \qquad (1.9) \qquad \qquad (3.6) \end{aligned}$$

(t-ratios shown in parentheses)

adjusted $R^2 = 0.91$, standard error = 0.23, Durbin-Watson statistic = 1.93.

variable definitions

MIG = $1000 \times$ net international migration to the UK scaled by UK population (range of MIG is 1.275%, -1.50).

HPY = $1n$ (UK house price index/per capita disposable income), normalized and weighted by the proportion of owner occupiers.

ΔSMIG = change in regional migration MIG, as in Box 1.

$\Delta^2 \text{DU}$ = rate of acceleration of differences in unemployment rate between the UK and the G7 group of OECD countries.

ΔLRW = difference in real wage growth in manufacturing between UK and the G7 countries.

ΔLRN = difference in employment growth between UK and the G7 countries

$\Delta_3 \text{GDP}$ = difference in the three year growth rate of real GDP/head between the UK and the G7 countries.

IV. Economic Consequences

For the economy as a whole, there is one long overdue favourable implication of the trends described above: less unequal regional development as jobs as well as households relocate outside the South East. As Patrick Minford has quipped, high house prices in the South East may, in the long run, prove to be the best friend of the unemployed person in Liverpool. However, high interest rates and a high exchange rate are being used to resist the inflationary and balance of payments consequences of the house price boom. There is a danger that this will curtail the growth of manufacturing industry. Since this is disproportionately located outside the South East, some of the regional benefits may be lost.

Our findings on the relationship between house prices and migration strengthens the evidence in our CEPR paper¹ on the consequences of the house price boom for higher wage inflation, particularly in the South East. In addition, increased net international emigration implies a brain and skills drain which, in view of the UK's poor performance in training and education, it can ill afford.² In the higher education sector, where real funding of staff, research and students is falling and salaries are being squeezed, the house price boom can only increase the extent of the brain drain.

International Equity Withdrawal

There are also unfavourable consequences for the capital account of the balance of payments. It is difficult to estimate the outflows of financial capital that may be expected to result from the shift from positive net immigration into the UK to substantial net emigration. Those leaving, especially the retired or those choosing early retirement, will in many cases be taking substantial financial wealth with them. Indeed, it is the opportunity for such 'equity withdrawal' which is a major factor in many of these moves.

Unfortunately the figures given for private transfers by migrants in the CSO's Balance of Payments Statistics Pink Book are extremely unreliable. Before 1979 they are based on transfers under the exchange control regulations and are subject to understatement. Since 1979, they are based on a brief question in the International Passenger Survey. As is well known, even in-depth asset surveys result in underestimates of the respondent's asset position.

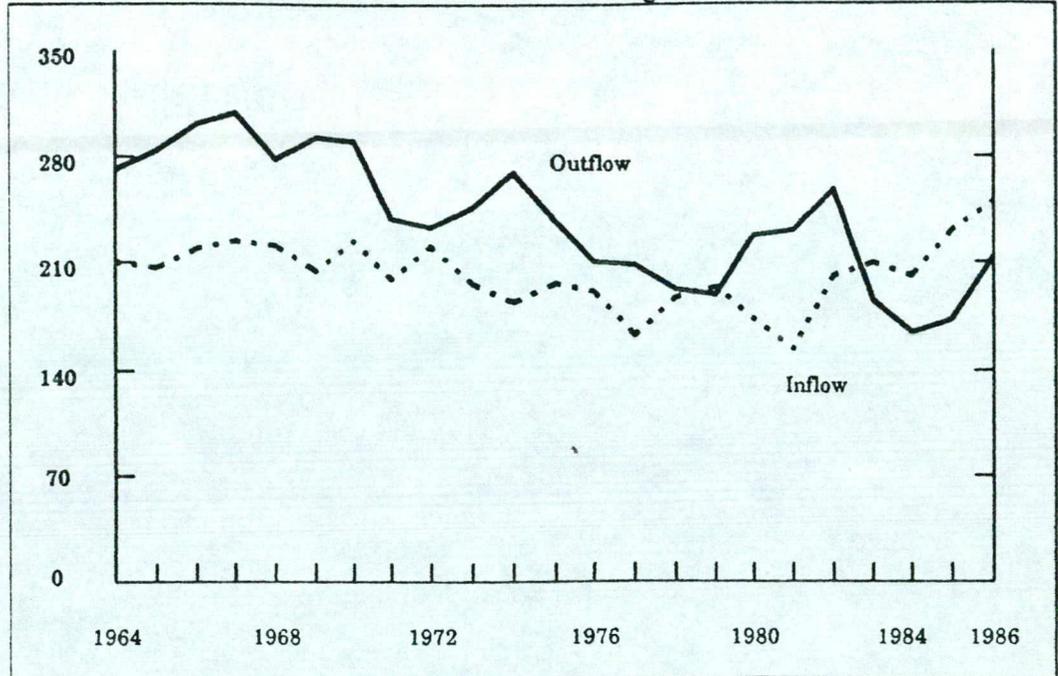
1 Bover, Muellbauer and Murphy, *op. cit.*

2 The director general of the Training Agency quoted in the Financial Times, Oct 28, p. 11 said this about the UK: "At every level we are towards the bottom of the training league table, whether in education, youth training, higher level skills training, or management training".

Economic Consequences

We suspect that the Pink Book grossly underestimates these transfers. For example, in 1987 a transfer out of £1.78b is shown, which is only around £8,100 per emigrant.¹ This compares with a figure of £4,700 per emigrant in 1978 (compared with per capita net wealth of £8,500 in 1978). But between 1978 and 1987 the per capita net wealth of the personal sector increased by a multiple of 3.23 and exchange controls were removed in 1979. Further, we know that employed emigrants are disproportionately in professional and managerial occupations (as opposed to manual and clerical ones) and that this proportion has grown substantially in recent years from $\frac{1}{4}$ in 1978 to $\frac{3}{4}$ in 1986. Moreover, recently the average age of emigrants has increased and we know that wealth increases with age.

¹ These transfers include payments by charities abroad and cash gifts to dependent relatives but we cannot separate out these items.

Chart 3 Gross International Migration Flows

These facts point to the conclusion that the 1978 figure of £4,700 per emigrant was understated and that the average wealth of emigrants increased by substantially more than 3.23 fold between 1978 and 1987. Suppose that the true 1978 figure was £7,000 per emigrant and that it needs to be scaled up by a factor of 5 to take into account the increase in average wealth, the increased concentration of emigrants in the higher wealth brackets and the removal of exchange controls. For 1987 this gives £35,000 per emigrant as against the Pink Book's £8,100. For 1988 a corresponding figure is around £42,000 given the increase in UK house and land prices and the fact that housing and land accounts for well over half of the personal sector's net wealth.

For immigrants the corresponding figure is almost certainly less. Immigrants in recent years have tended to be a little younger than emigrants and have had a somewhat lower proportion of the employed in managerial and professional occupations. Also in the countries from which most immigrants came - the EEC, the US and the Old Commonwealth - house prices have not surged as in the UK since 1983 and net wealth adjusted for the exchange rate has almost certainly increased at a more moderate rate.

Economic Consequences

Indeed, the recent Pink Book figures suggest the capital inflow per immigrant is about 87% of the outflow per emigrant. If the percentage measurement bias is similar for both and a figure of £35,000 per emigrant is assumed in 1987, then a figure of £30,500 is implied per immigrant*. Given the fall in world stock markets and the absence of house price booms on the British scale abroad, it seems reasonable to suppose that the 1988 figure per immigrant is unchanged at £30,500. Suppose there are 270,000 emigrants in 1988 and 220,000 immigrants, which is consistent with our prediction of a net outflow of 50,000 in 1988. Then the capital outflow is £11.3b and the capital inflow is £6.7b giving a net capital outflow of £4.6b which is around $\frac{1}{3}$ of the predicted 1988 trade deficit.

Considerable uncertainty surrounds these figures. For example, one might argue that, despite incentives to get round exchange controls in 1978, the figure of £4,700 per emigrant for 1978 is accurate. Applying the same scaling up factors to post 1978 data as described above would then give a capital outflow for 1988 of £7.6b and an inflow of £4.5b and thus a net outflow of £3.1b.

It seems almost certain that the net outflow in 1989 will be on an even bigger scale especially if the UK house price boom outside the South East continues. It is an implication of our analysis that the proportion of emigrants near or above the retirement age will show further sharp increases. The relaxation of various barriers to movement within the EEC in the run-up to 1992 is likely to add to the outflow. What happens beyond 1989 depends substantially on relative house price movements between the UK and the more popular European destinations such as Spain, Portugal and France.

Much evidence has recently accumulated on firms relocating jobs or creating new jobs outside the South East. Firms are responding to higher land prices or rents, higher wages and skill shortages in the South East. Looking a little further ahead, similar factors will be undercutting the incentives for firms to locate in the UK as opposed to elsewhere in Europe. While by no means denying the positive incentives for location in the UK stemming from reduced union power, improved productivity and income tax reductions, increased European integration scheduled for 1992 could well prove to be a double edged sword. Recent evidence of increased involvement by British firms in building in France and Spain is consistent with this view.

* Implicitly, we are assuming gifts and charitable giving which the Pink Book figures on capital flows include are the same proportion of migrants remittances for inflows as for outflows.

Economic Consequences

Immediate Investment Implication

The investment implications for South East property and for retailing, squeezed by high wages, high rents and a falling South East population, look quite severe. For the UK as a whole, further increases in land price/income ratios are likely to be restrained by the new trends in international migration described above, by the negative consequences for the location of new investment and by the need to restrain consumer expenditure which, as Mr Lawson admitted in his Mansion House speech, has been fuelled by high house prices.

South East housebuilders are probably already feeling the pinch. The recently reported fall in housing starts and the spate of special incentives to buy now being advertised by builders point to this. Most households moving out of the South East will be selling their dwellings, and typically could not move without doing so. The resulting shortfall in the demand for dwellings will thus tend to fall first on newly completed dwellings. Given that private sector houses and flats started in the South East in 1987 amounted to 63,800 units, the loss in 1988 of a further 60,000 individuals compared with 1987, say 20,000 households, is a substantial negative shock for housing demand. It comes on top of the squeeze on first time buyers from high house prices and high interest rates. One can expect the stock of unsold dwellings to rise sharply in 1988-89. This is especially bad news for builders borrowing at currently high interest rates.

We plan to examine more formally these kinds of consequences for house price in the UK and in the South East in a future paper. For the present, we find it hard to believe that the current premium in the South East's house price/earnings ratio is sustainable despite the coming of the Channel Tunnel, the propinquity of the South East to the Continent, the coming of "1992" and the abolition of domestic rates. We have analogous doubts about the UK house price/income ratio, though as Peter Spencer¹ and Gordon Hughes² have argued, the abolition of domestic rates has significantly raised its long run value. However, their analysis assumes that the economy as a whole can live with such a sustained increase and there we have doubts. In other words, interest rates in the UK may have to be permanently higher to compensate. If we are right to have these doubts then the recent changes in migration flows that we have identified are part of the relevant adjustment process and are unlikely to be sustained in the long term.

1 P. Spencer, "The Community Charge and its likely effects on the UK economy", Credit Suisse First Boston, 1988.

2 Cited in Spencer, *op. cit.*

APPENDIX Sources of Annual Migration Data

Sources of Annual Migration Data

International Passenger Survey (IPS):

The IPS is a voluntary sample survey of passengers which covers the principal air and sea routes between the UK and overseas excluding the Irish Republic. Travellers who are migrants are asked a number of questions about their age, sex, marital status, country of birth, citizenship, occupation, country of/last or next residence and area of destination or origin within the UK. An immigrant to the UK is defined as a person who has resided abroad for a year or more and who states on arrival the intention to stay here for a year or more, and vice versa for an emigrant.

The IPS migration statistics are based on a small number of contacts with migrants and are subject to a large sampling errors. For example in 1986 the estimated gross inflow of 250.3 and outflow of 213.3 (thousand) both have an estimated standard error (s.e.) of 4.5%, while the net inflow of 36.9 has a s.e. of 40.1%.

National Health Service Central Register (NHSCR):

The NHS central register is notified when a patient registers with a new NHS doctor in a different Family Practitioner Committee area. Most short distance moves are thus excluded. Since mid-1984 a full count of these transfers, replacing the previous 10% sample, has formed the basis of figures on regional and other internal population movements. The only information extracted about the people moving is their age, sex and which area they have moved from and to. The figures are lagged three months to allow for the interval between a person moving and re-registering with a doctor.

Other Data Sources:

Both the General Household Survey and the Labour Force Survey, which is now an annual survey, provide data on regional migrants and on international immigrants. The major non-annual source of data on migration is the Census of Population.

The Pattern of International Migration

Detailed data on gross migration flows, excluding flows to or from the Irish Republic, are obtained from the IPS and are published in the OPCS International Migration series. The 1986 edition is the most recent one. There are no detailed annual data on migration flows to or from the Irish Republic.

The pattern of the gross migration flows from 1964 to 1986 was illustrated in Chart 3 on page 19. Note the downward trend in emigration and the recent rise in immigration. Net migration - the difference between immigration and emigration - has been negative over most of the period. It is of course sensitive to small changes in the gross migration flows.

Immigration Flows

The changing pattern in the country of origin (of immigrants) or destination (of emigrants) is clearly illustrated in Charts 4 and 5. Panel (a) shows the migration flows to or from the Old and New Commonwealth countries. Australia, Canada and New Zealand are classified as Old Commonwealth. Other Commonwealth countries, including Pakistan, are classified as New Commonwealth. Panel (b) shows the migration flows to or from non-Commonwealth countries. These countries are classified as Europe (including the USSR and Turkey), the USA and all other non-Commonwealth countries (which includes the Middle East). Unfortunately consistent time series for the EEC countries are not published. The decline in migration to and from the Commonwealth countries is noteworthy. The decline in emigration to the Old Commonwealth in the first half of the data period is dramatic. Migration with Europe has increased recently.

The age distribution of both emigrants and immigrants is very dissimilar to that of the population as a whole. For 1977 and 1986 the figures are as follows:

Age	Population		Emigrants		Immigrants	
	1977	1986	1977	1986	1977	1986
0 - 14	22.4	19.0	14.7	17.3	17.8	18.1
15 - 24	14.8	16.3	25.8	21.8	33.9	31.6
25 - 44	25.5	27.7	48.6	45.8	39.9	40.3
45 - 64 (m) /59 (f)	20.0	18.8	8.2	10.5	5.8	7.8
65 (m) /60 (f) +	17.3	18.1	2.6	4.5	2.5	2.3

The last age category consists of those above pension age, which differs for males (m) and females (f). Those aged 45 and over have a very low propensity to migrate relative to those aged 15 to 44. The number of children migrating is low relative to the numbers aged 25 - 44.

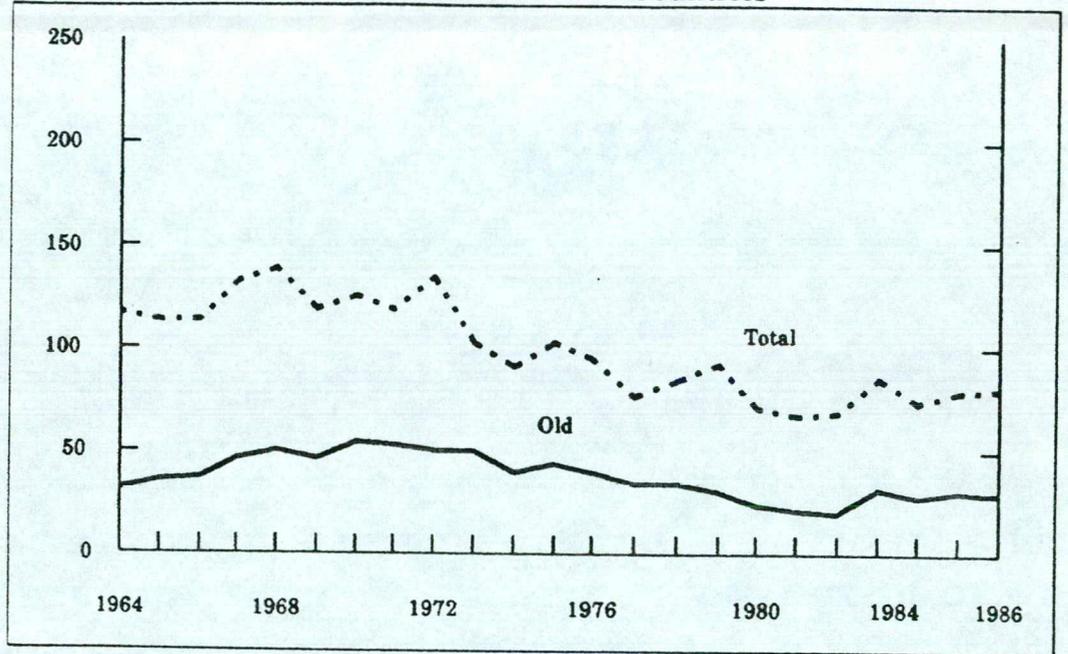
The sex and marital status of migrants (aged 15 and over) in 1977 and 1986 are as follows:

	Emigrants		Immigrants	
	1977	1986	1977	1986
	%	%	%	%
Males - Married	31.6	25.7	28.1	23.2
- Other	25.7	25.5	25.7	24.9
- Total	57.3	51.2	53.8	48.1
Females - Married	24.5	29.1	24.8	23.4
- Other	18.2	19.7	21.4	28.5
- Total	42.7	48.8	46.2	51.9

The share of married males has declined while the shares of married female emigrants and non-married female immigrants have increased. As a result the shares of males and females are now approximately equal.

Chart 4: Immigration Flows

(a) From Commonwealth Countries



(b) From Non-Commonwealth Countries

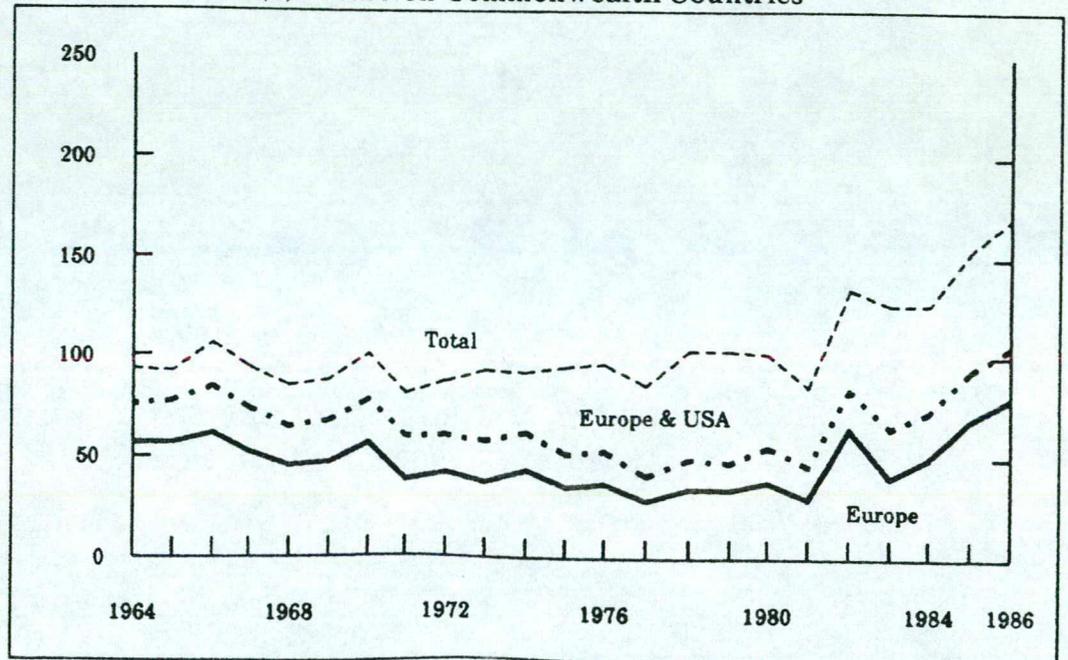
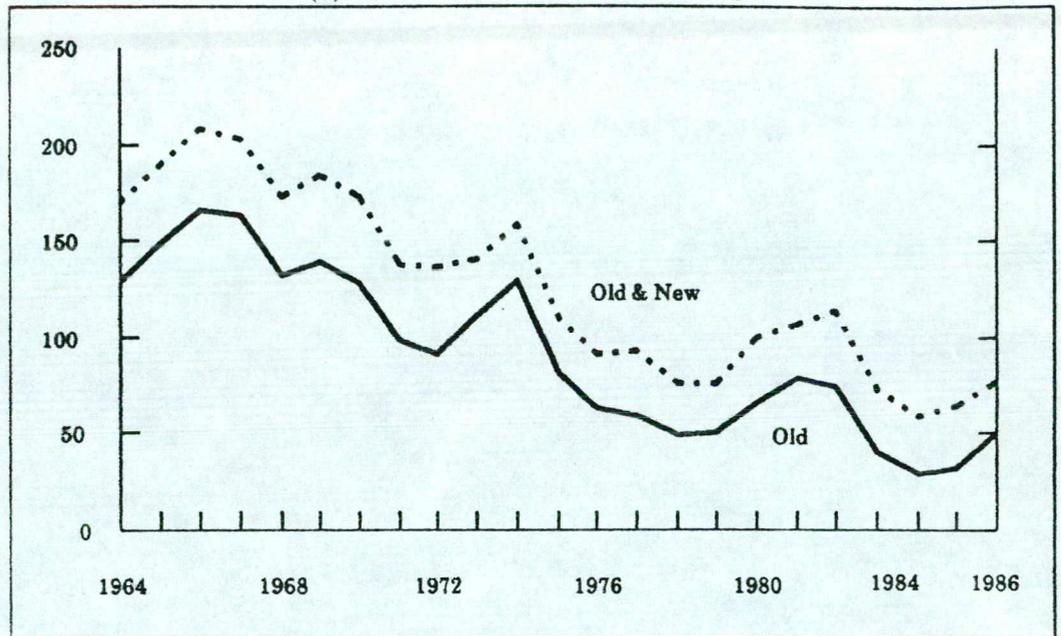
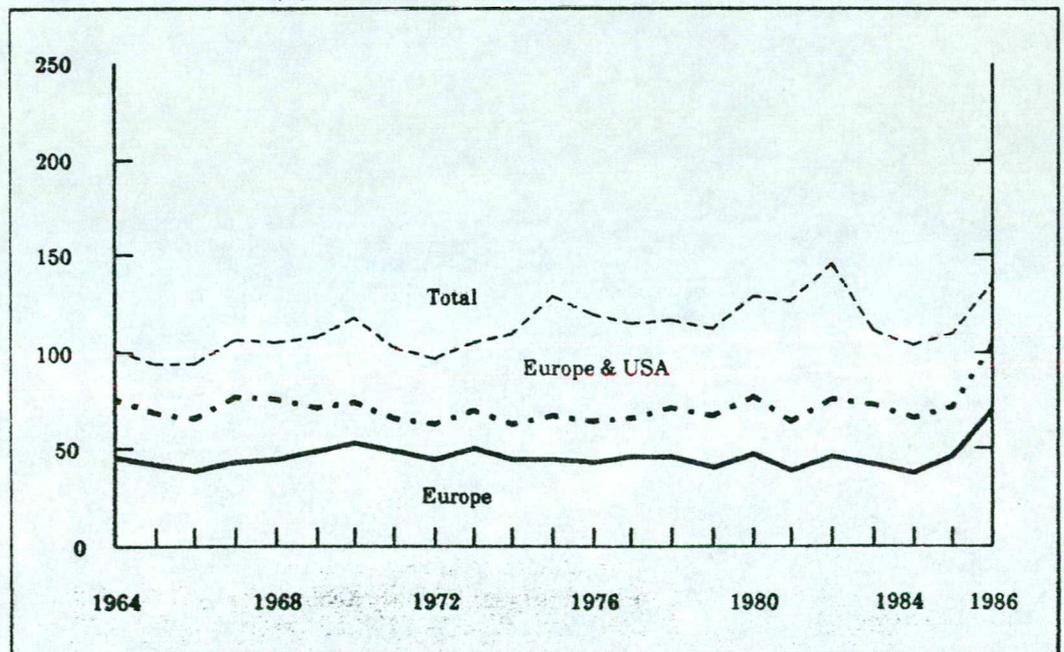


Chart 5: Emigration Flows

(a) To Commonwealth Countries



(b) To Non-Commonwealth Countries



Immigration Flows

The occupations of migrants in 1977 and 1986 are classified as follows:

Occupation	Emigrants		Immigrants	
	1977	1986	1977	1986
	%	%	%	%
Professional and Managerial	31.5	36.0	26.6	30.4
Manual and Clerical	29.6	18.0	22.9	18.4
Students	8.4	13.2	15.7	18.8
Housewives	11.7	10.9	12.6	11.4
Others (including Retired)	3.2	3.9	3.8	1.7
Children (aged 0-15)	15.5	17.9	18.4	19.3

The share of migrants (aged 16 and over) in employment is higher than the share of the UK population in employment. Moreover the share of migrants with professional and managerial occupations is considerably higher than the corresponding share for the UK population. The decline in the share of manual and clerical emigrants is noteworthy.

London and the rest of the South East are disproportionately the origin of emigrants from the UK and the destination of immigrants to the UK, as the following data for 1977 and 1986 show.

Region	Population		Emigrants		Immigrants	
	1977	1986	1977	1986	1977	1986
	%	%	%	%	%	%
Greater London	12.5	11.9	23.9	24.0	34.7	31.3
Rest of South East	17.7	18.5	22.6	24.4	18.8	20.2
Total South East	30.2	30.4	46.5	48.4	53.5	51.5

Finally some data on return migrants - foreign born emigrants or UK born immigrants - for 1977 and 1986 are set out below. The figures are expressed as percentages of the relevant gross flows.

Return Migrants	1977	1986
	%	%
Foreign Born Emigrants		
Total	35.6	44.5
In UK < 5 Years	23.3	32.4
UK Born Immigrants		
Total	39.3	36.2
Abroad < 5 Years	22.3	22.3

The incidence of return migration is quite high - the median duration of stay of a return migrant is only about 3 years.

Immigration Flows

The Pattern of Regional Migration

Annual data showing the age, origin and destination of regional migrants are published in the CSO Regional Trends series. The most recent published data are for 1986.

The gross and net regional migration flows (in thousands) in 1986 are set out below. The figures in brackets are movement rates per thousand population. The pattern of regional migration is broadly similar in earlier years.

Region	Inflow	Outflow	Net Flow
North	47 (15)	54 (17)	-7
Yorkshire & Humberside	79 (16)	90 (18)	-12
East Midlands	102 (26)	85 (22)	17
East Anglia	61 (31)	51 (26)	10
South East	270 (16)	274 (16)	-4
Greater London	183 (27)	232 (34)	-50
Rest of South East	310 (30)	264 (25)	45
South West	149 (33)	102 (23)	46
West Midlands	77 (17)	85 (18)	-8
North West	84 (13)	111 (17)	-28
Wales	55 (20)	50 (18)	5
Scotland	44 (11)	58 (11)	-14
Northern Ireland	9 (10)	15 (10)	-6

The total migration flows set out above mask important differential age effects. Data disaggregating the gross and net regional migration flows by age are available from 1982 onwards although the 1985 and 1986 tables are the only ones published. Those aged 45 and over have a much lower propensity to migrate between regions relative to those aged 15 to 44.

The gross and net internal migration flows to and from the South East in 1986 disaggregated by age are set out below. The flows are in units of a thousand and movement rates are given in brackets.

Age	South East		Net Flow
	Inflow	Outflow	
0 - 14	39 (12)	49 (15)	-10
15 - 24	100 (36)	68 (24)	32
25 - 44	97 (20)	92 (19)	5
45 - 64 (m) / 59 (f)	18 (6)	33 (10)	-15
65 (m) / 60 (f) +	15 (5)	32 (10)	-17

The small net outflow in 1986 is the outcome of two offsetting flows - a net outflow of children and older people aged 45 and over, and a net inflow of those aged 15 to 44. The pattern in the years 1982 to 1985 is similar although the net flows in each age group have increased in absolute size.

Immigration Flows

The age structure of the South East and UK populations in 1977 and 1986 is:

Age	South East		United Kingdom	
	1977 %	1986 %	1977 %	1986 %
0 - 14	21.3	18.4	22.4	19.0
15- 24	14.8	16.3	14.8	16.3
25- 44	26.4	28.6	25.5	27.7
45- 64 (m)/59 (f)	20.0	18.6	20.0	18.8
65 (m)/60 (f) +	17.6	18.1	17.3	18.1

The South East and UK age structures are similar. The South East has a lower share of those aged 0 to 14 and a higher share of those aged 25 - 44.

Copy please

FROM: ALLEN RITCHIE
DATE: 21 DECEMBER 1988

MR A C S ALLAN

cc Sir T Burns
Mr Odling-Smee
Mr Sedgwick
Mr Grice
Mr Hibberd
Mr O'Donnell
Mr Dickson
Dr Kosmin

HOUSE PRICES

I attach a chart showing the Halifax House Price Index on a logarithmic scale, as requested in your minute to me of 19 December.

2. Also attached is a chart showing real house prices since 1953, also on a logarithmic scale. This is similar to the (non-logarithmic scale) chart attached to Mr Dickson's minute of 16 December, except that this chart uses the Nationwide Anglia's house price index. (Mr Dickson's used the DOE 5 per cent sample of building society mortgages). The deflator used is the RPI. The 1972-73 and 1979 house price booms show up quite clearly on this chart. The interesting question is whether, from the perspective of two or three years time, 1988 will appear to have been the peak of a third house price 'bubble'.

Ch

Interesting. Worth getting second chart deflated by earnings?

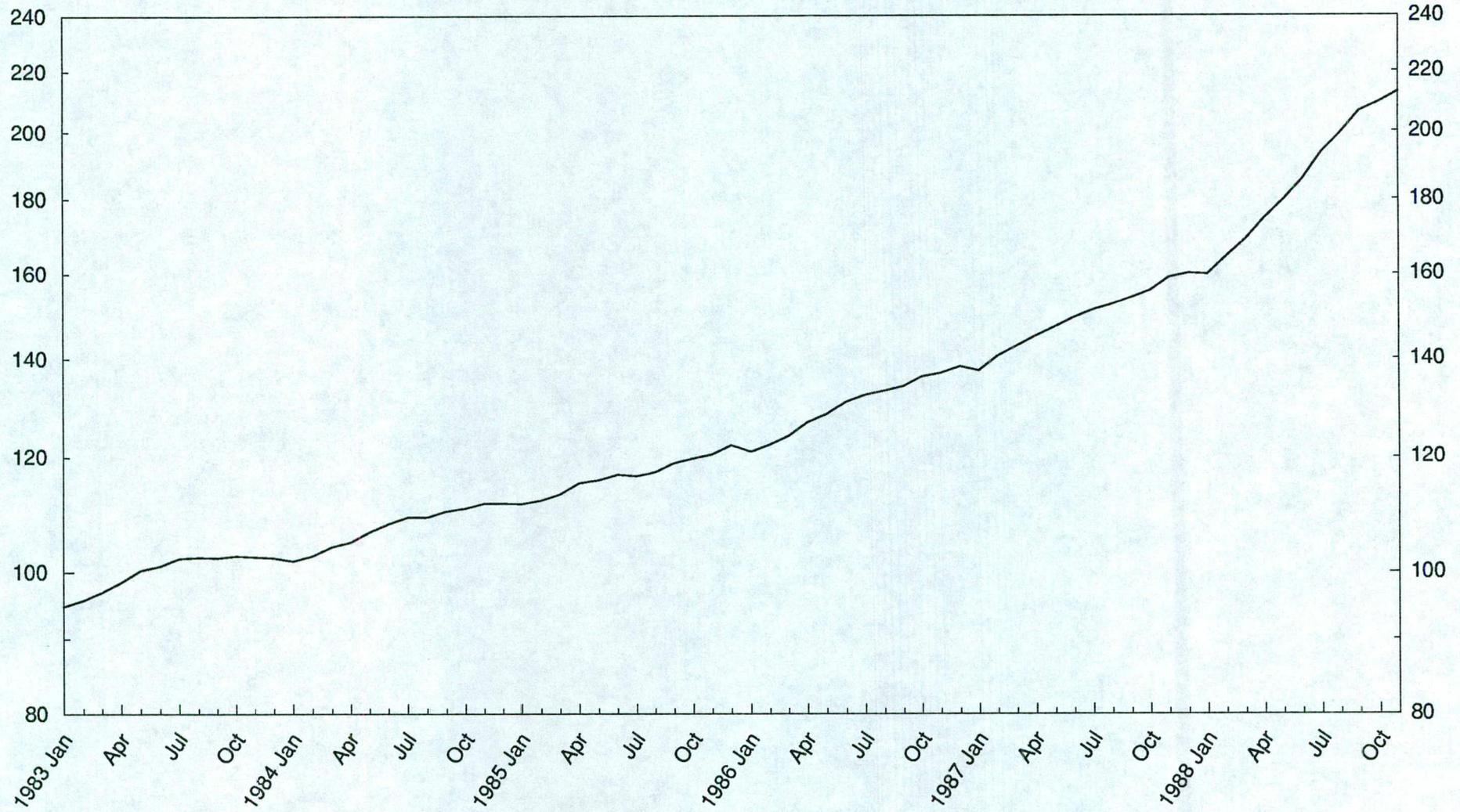
AA

Allen Ritchie

ALLEN RITCHIE
FIM2

Yvonne think in 2nd chart

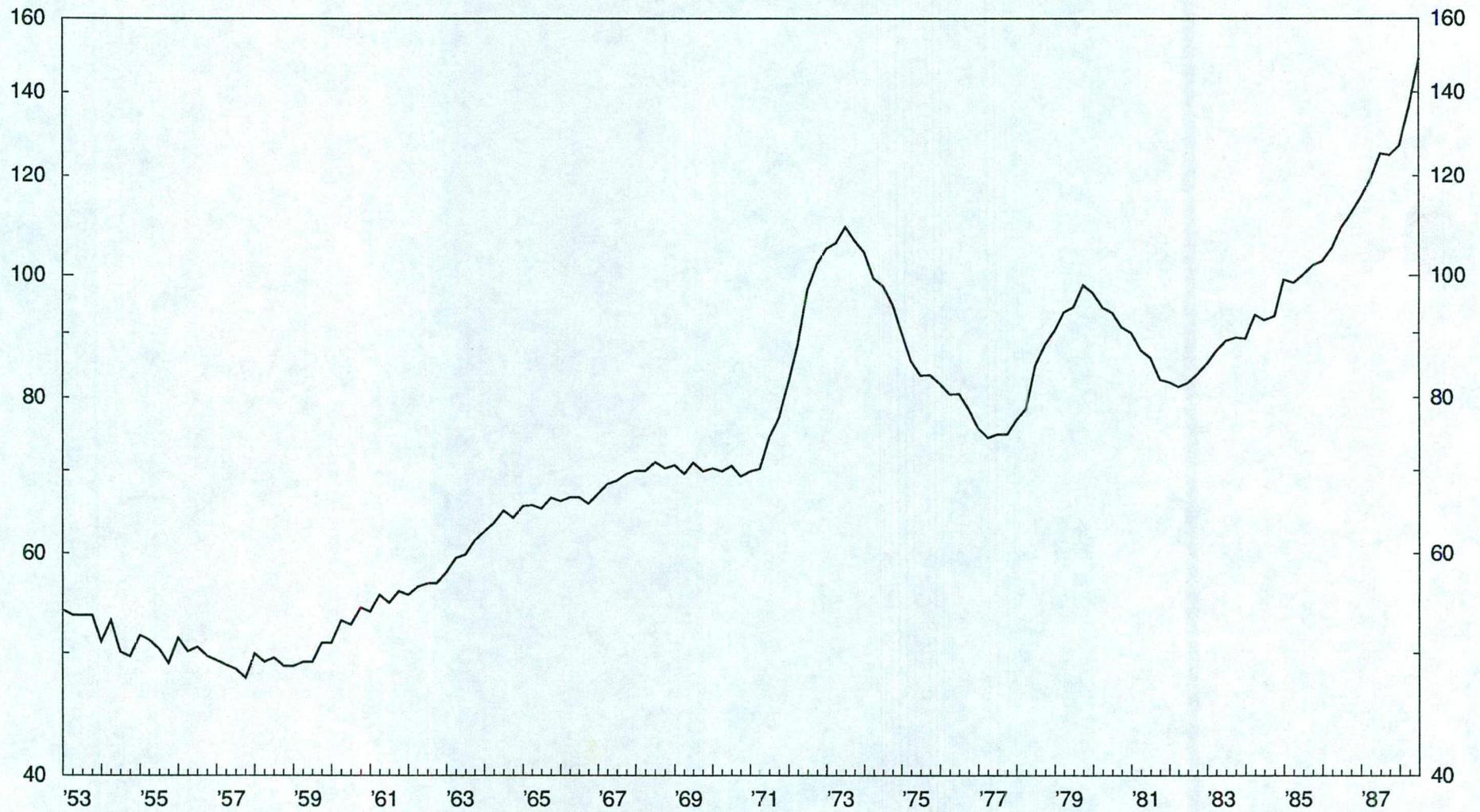
HALIFAX HOUSE PRICE INDEX



Standardised index of all house prices
1983 = 100

Real House Prices

1985 = 100



Real House Prices = House Prices / RPI

Source : Nationwide Anglia Building Society
Index of All Houses (at mortgage approval stage)

~~MAP~~ BF 3/11

FROM: MISS M P WALLACE

DATE: 22 December 1988

9/11



4/11
18/11

MR A RITCHIE

- cc Sir T Burns
- Mr Odling-Smee
- Mr Sedgwick
- Mr Grice
- Mr Hibberd
- Mr O'Donnell
- Mr Dickson
- Dr Kosmin

HOUSE PRICES

The Chancellor has seen and was grateful for your minute of 21 December. He would be interested to see your second chart (the Nationwide Anglia Index) deflated by earnings, too. Could you provide, please?

pl chase

M.P. Wallace

MOIRA WALLACE

*Mr Burns -
A Mr update chart.
for updates required.*

FROM: RUTH KOSMIN
DATE: 22 DECEMBER 1988

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Hibberd
Mr O'Donnell
Mr Grice

HOUSE PRICES: RICS SURVEY

Further to my minute of 1 December, you requested that I produce a chart of the results of the monthly RICS housing market survey since 1979. The latest November survey is now available, and the results are included in the chart.

2. I have presented the information in the form of monthly bar charts. As I explained in my earlier note, the RICS distributes 430 questionnaires each month, and estate agents are asked to report changes in house prices in their area over the previous 3 months of the following magnitudes:-

- i. very much higher (approx 8% or more)
- ii. much higher (approx 5%)
- iii. slightly higher (approx 2%)
- iv. the same
- v. lower

Each of these 5 categories is represented in the different shaded sections of the bar charts.

3. It has not been possible to indicate on the charts the number of agents who contributed in each month. Table 1, however, lists the number of contributors out of the potential of 430 in each case. It is clear that the response rate varies considerably month by month, and there is no regional disaggregation of response.

4. It is interesting to note that for the first time since mid 1983 there is a significant proportion of respondents reporting

'lower' prices than 3 months earlier. In addition, from its peak in June, there has been a dramatic fall in the percentage reporting in the 'very much higher' category of 8% or more.

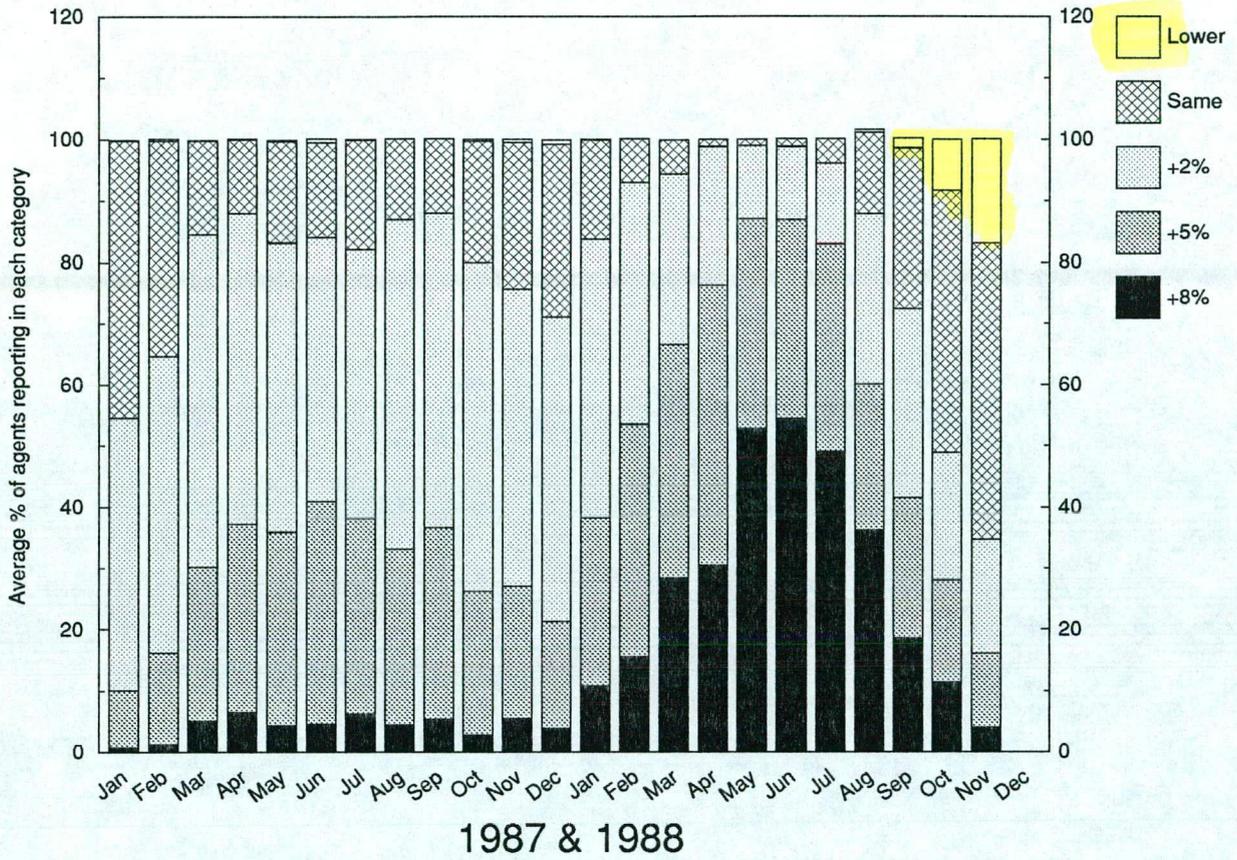
5. There are unfortunately a few gaps in the charts, for which the RICS have as yet been unable to provide the data. Once the information becomes available from their archives, I will be able to complete the charts.

Ruth Kosmin

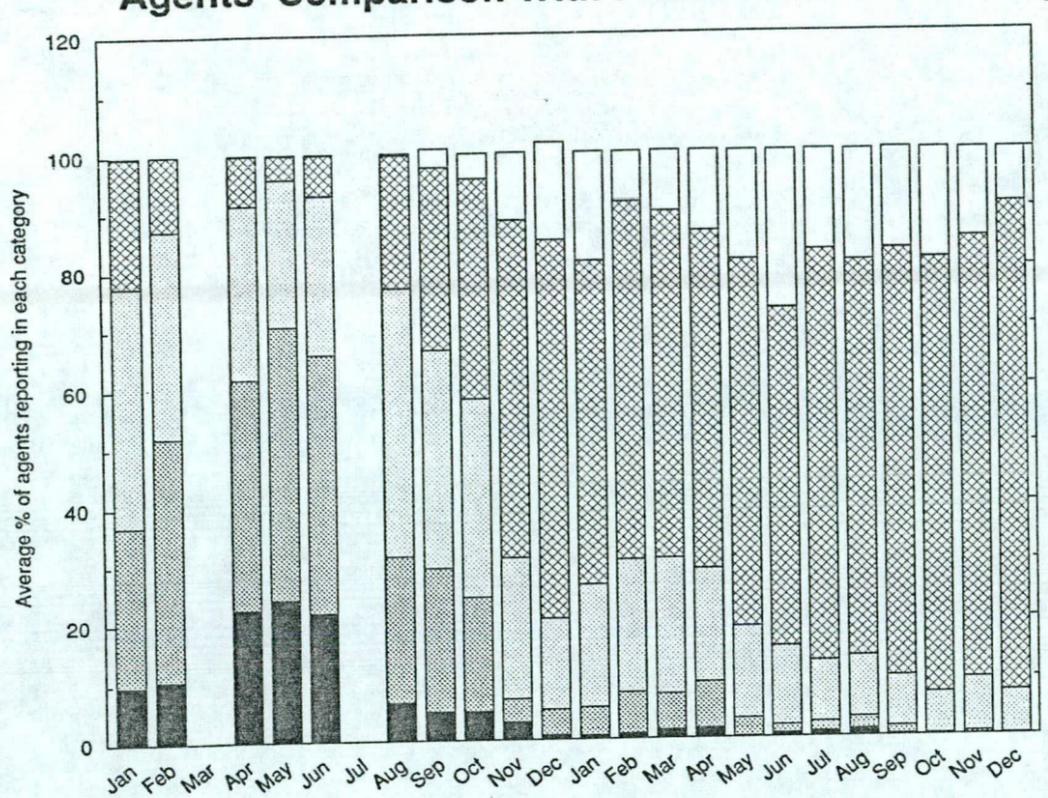
RUTH KOSMIN

FIM2

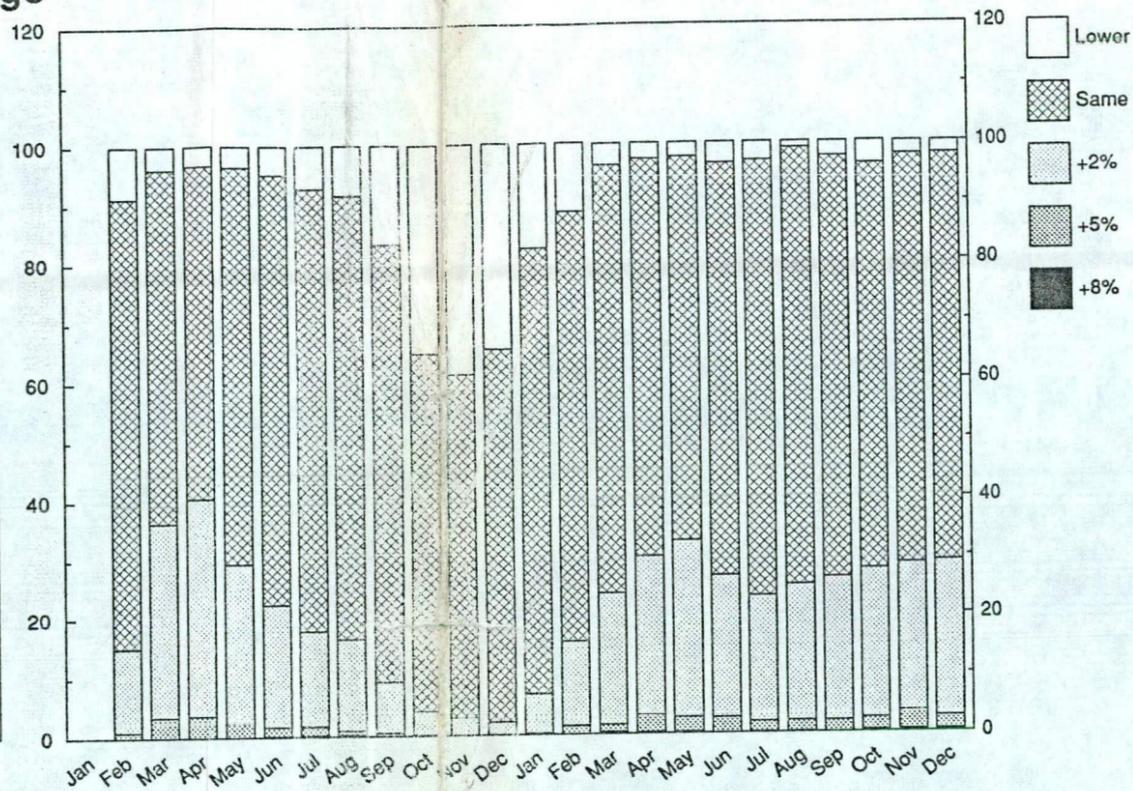
Agents' Comparison With Prices Three Months Ago



Agents' Comparison With Prices Three Months Ago

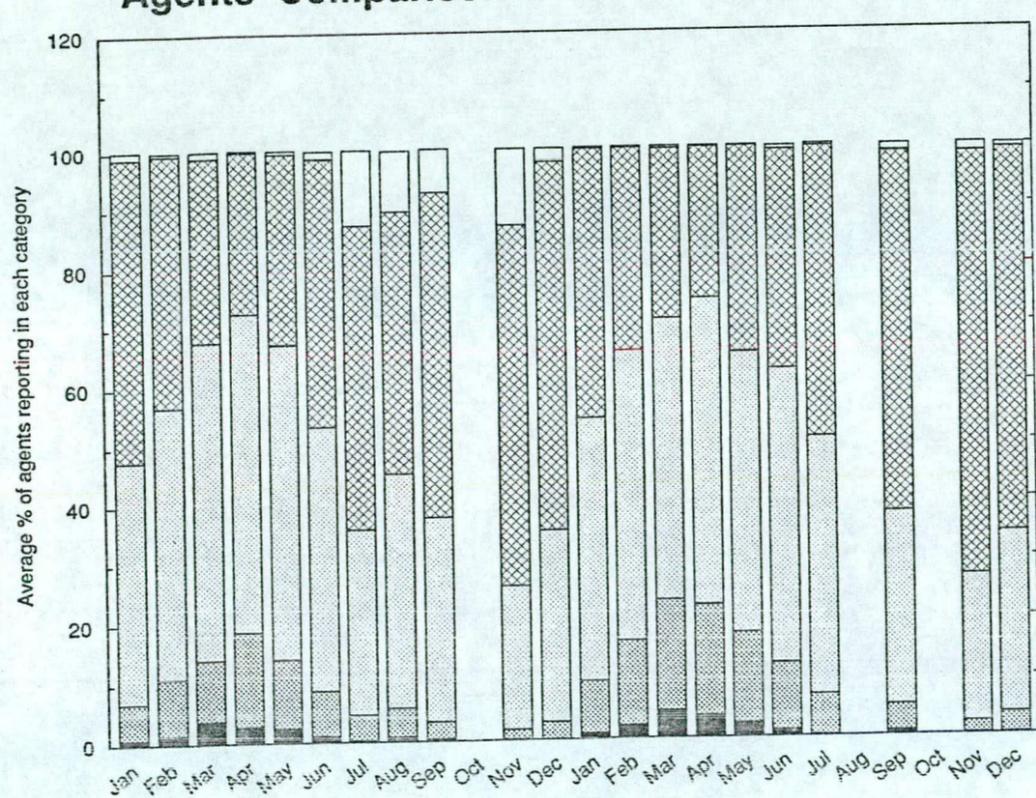


1979 & 1980

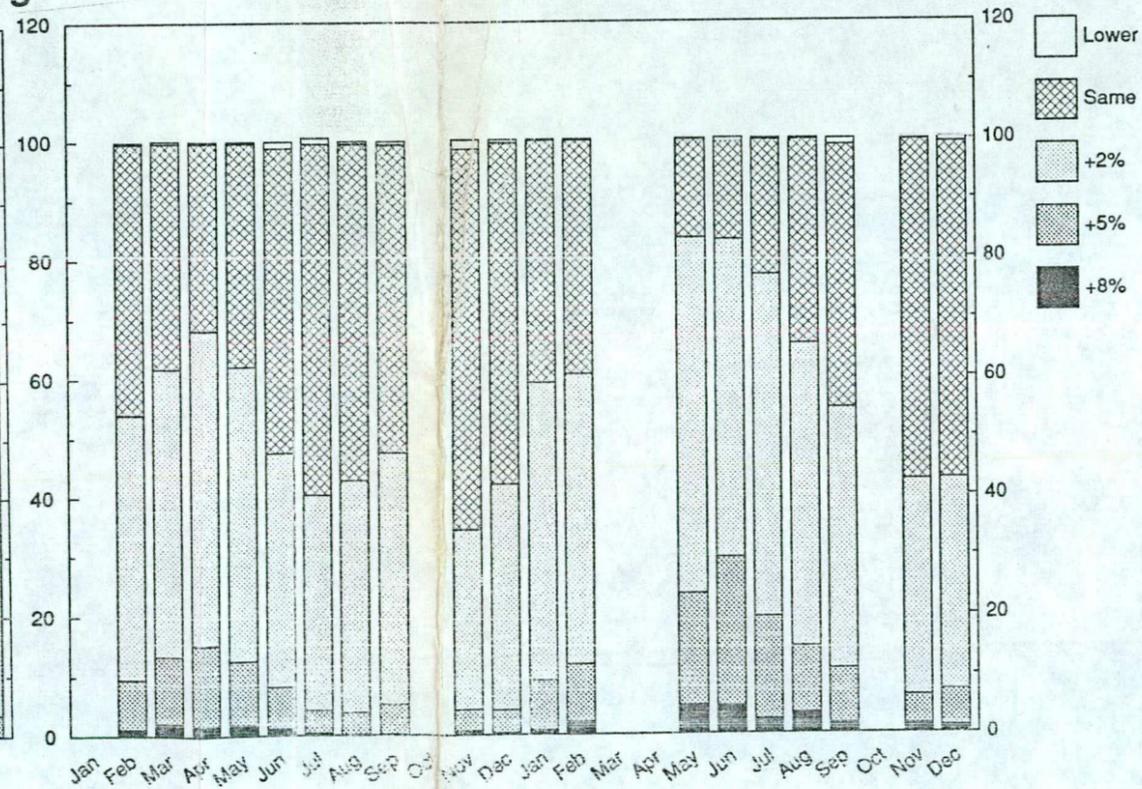


1981 & 1982

Agents' Comparison With Prices Three Months Ago



1983 & 1984



1985 & 1986

TABLE 1

TOTAL NUMBER AND PERCENTAGE OF AGENTS CONTRIBUTING

		No.	%			No.	%
1979	Jan	108	25	1984	Jan	256	60
	Feb	117	27		Feb	294	68
	Mar				Mar	300	70
	Apr	116	27		Apr	296	69
	May	118	27		May	255	59
	Jun	114	27		Jun	287	67
	Jul				Jul	263	61
	Aug	97	23		Aug		
	Sep	131	30		Sep	273	63
	Oct	115	27		Oct		
	Nov	132	31		Nov	260	60
	Dec	137	32		Dec	282	66
1980	Jan	137	32	1985	Jan		
	Feb	103	24		Feb	247	57
	Mar	115	27		Mar	251	58
	Apr	105	24		Apr	227	53
	May	123	29		May	212	49
	Jun	118	27		Jun	238	55
	Jul	108	25		Jul	234	54
	Aug	109	25		Aug	213	50
	Sep	111	26		Sep	234	54
	Oct	104	24		Oct		
	Nov	126	29		Nov	265	62
	Dec	119	28		Dec	262	61
1981	Jan			1986	Jan	227	53
	Feb	108	25		Feb	205	48
	Mar	107	25		Mar		
	Apr	89	21		Apr		
	May	109	25		May	158	37
	Jun	133	31		Jun	222	52
	Jul	162	38		Jul	206	48
	Aug	191	44		Aug	196	46
	Sep	198	46		Sep	213	50
	Oct	220	51		Oct		
	Nov	222	52		Nov	190	44
	Dec	209	49		Dec	189	44
1982	Jan	224	52	1987	Jan	226	53
	Feb	219	51		Feb	175	41
	Mar	182	42		Mar	254	59
	Apr	184	43		Apr	174	40
	May	191	44		May	248	58
	Jun	203	47		Jun	219	51
	Jul	194	45		Jul	187	43
	Aug	183	43		Aug	112	26
	Sep	176	41		Sep	143	33
	Oct	222	52		Oct	124	29
	Nov	227	53		Nov	209	49
	Dec	189	44		Dec	154	36
1983	Jan	202	47	1988	Jan	178	41
	Feb	212	49		Feb	170	40
	Mar	144	33		Mar	122	28
	Apr	194	45		Apr	117	27
	May	179	42		May	188	44
	Jun	160	37		Jun	180	42
	Jul	176	41		Jul	185	43
	Aug	150	35		Aug	97	23
	Sep	134	31		Sep	100	23
	Oct				Oct	188	44
	Nov	147	34		Nov	187	43
	Dec	165	38		Dec		



FROM: MISS M P WALLACE

DATE: 3 January 1989

M.P.W.

MS R KOSMIN

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Hibberd
Mr O'Donnell
Mr Grice

HOUSE PRICES: RICS SURVEY

The Chancellor was most grateful for your minute of 22 December. He thought the charts you attached most useful, and would like to see regular updates. I should be grateful if you could arrange for this.

M.P.W.

MOIRA WALLACE

1. ~~Atx~~
2 pnp -



Ch
 Recognise problem (by using a New Forest!) But is X
 workable or desirable? It would produce case (as with
 sitting tenants) where there is huge
 incentive to overcome restriction &
 realise windfall gain.

2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434

My ref:

Your ref:

The Rt Hon John Wakeham MP
 Lord President of the Council
 Privy Council Office
 Whitehall
 LONDON
 SW1

1 CHIEF SECRETARY	
SEC.	11 JAN 1989
ACTION	Mr S Wood
COPIES TO	Mr S Wood
	Mr Anson, Mr Phillips
	Mr Edwards, Mr Ingham
	Mr Lomas, Mr Bellenden

11 January 1989

Mr Tyrie

LOW COST HOUSING IN RURAL AREAS

There is growing concern, both in rural communities and among our own supporters, about the difficulties which local people on modest incomes often face in securing adequate housing in their own villages and rural areas. In many of these areas the combined effects of increased long-distance commuting, purchases for retirement and second homes and council house sales have tended to dry up the supply of rented accommodation and low cost housing for sale.

We have already announced an increase in the Housing Corporation's funding for schemes undertaken by rural housing associations. We have agreed with the Corporation that they will bring forward to 1989/90 their target of 600 approvals for new rented housing association homes in small villages: the number of approvals will have almost quadrupled between 1987/88 and 1989/90. I am discussing with the Corporation targets for later years, and will make a further announcement shortly. But I believe a further policy initiative is needed through the planning system to facilitate low cost housing provision, both by housing associations and private developers. This letter sets out my thinking and proposes an early announcement.

Our general advice to planning authorities places great emphasis on the need to ensure that adequate land is allocated for all types of housing demand and that sufficient land is actually available for foreseeable development needs over a 54 year period. But this in itself is not necessarily enough to secure the provision of low cost housing, particularly against the background of the recent substantial increase in the general level of housing prices. Planning permissions do not differentiate between housing schemes in terms of tenure or price: once a planning permission is given, the value of the land in question tends to be determined by the general owner-occupier market. As a result of the boom in house prices recently caused by increasing prosperity, land values are often too high to make low cost development feasible.



What is needed is a way of introducing into the housing land market a means of identifying sites specifically for low cost housing schemes, so that their value is determined by the economics of those schemes, rather than by their potential for other types of housing development. The value of such land would be significantly below that of land released for normal speculative development; but it could still be well above agricultural value. Sales for low cost housing schemes could thus be an attractive proposition for landowners, so long as they did not believe that they could hope to sell for other types of housing development.

One approach to this problem would be to make it possible for authorities to grant planning permissions restricted to a particular form of tenure, or specific to a particular type of developer, eg housing associations. I do not favour this approach: it would require primary legislation and it would run counter to the long-established principle that planning controls are concerned with the use of land and not directly with questions of tenure or with the identity of the developer. There would be scope for politically motivated abuse of the planning system if we were to give planning authorities a general power to restrict planning permissions in such ways.

The approach which I favour would operate within the existing legal framework. Essentially we would be giving planning authorities the following guidance:-

- i) development plans must continue to make adequate provision for housing demand of all kinds: authorities should not restrict their general provision in order to give priority to a particular type of demand;
- ii) the need for low cost housing to meet local needs can however be a material consideration which would justify the release of additional land for housing, over and above the general provision in the development plan;
- iii) where such additional releases are contemplated, authorities must satisfy themselves that suitable legal or other arrangements are made to ensure that this low cost housing is made available for local needs and not subsequently turned into housing for sale at market prices.

I believe an announcement on those lines would prompt many landowners to offer land at cheap prices for local needs and encourage rural authorities to consider the release of small sites - eg infill sites or sites on the periphery of villages - which would not otherwise be released and would represent a net addition to housing provision in the area. The kind of arrangement which would satisfy the "local needs" criterion would be the involvement of a village trust or housing association with a suitable lettings policy, perhaps giving the local authority nomination rights; or legal agreements between the landowner, the developer and the

planning authority to give priority to first-time buyers in the locality, both initially and on subsequent resale. It would be for the planning authority to satisfy itself as to the adequacy of these arrangements.

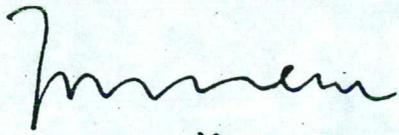
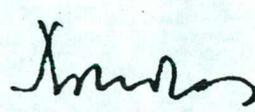
The concept of additionality is crucial to the policy. Only if we insist that land released for low cost schemes is additional to the provision for general housing demand can we be confident that authorities will not use the policy as an excuse for restricting general housing development. and, of course, the advantages of a reduced land price will be realised only if land released for this purpose is recognised as being exceptional and additional to the general provision.

I am aware of the possibility that, by introducing the concept of "local needs" into planning policy, we risk introducing an element of bias into planning decisions and decisions over the allocation of housing. But I do not believe that these risks are any greater than those which already arise in respect of local authority and housing association allocation practices (indeed, many of the developments in question would very likely be undertaken by housing associations). There is already a groundswell of opinion, among those concerned for rural areas, that arrangements along these lines are needed. Various methods are already being developed at the local level and there is a risk of confusion. A statement along the lines that I propose would introduce some order into this situation: it would make clear to authorities what kind of policy we consider acceptable and would define the area where we see legitimate scope for planning policies designed to promote low cost housing.

Though the numbers of additional houses provided might in total be relatively small, the effect could be significant for many rural communities and I believe that an initiative on these lines would be warmly welcomed by many who are concerned about rural housing problems.

I should like to make an early announcement on the lines of the draft at Annex A. The announcement is necessarily in technical language; I would propose that either Michael Howard or I should accompany the announcement with a speech in which we would flesh out the details of the initiative and give examples of the sort of arrangements we would be happy to see developed. This will be an important and welcome statement and it should be made at a time when no other announcements are likely to overshadow it.

I am copying this to the Prime Minister, to other members of H Committee, to John MacGregor and to Sir Robin Butler.



NICHOLAS RIDLEY

ANNEX A

Draft Arranged PQ

To ask the Secretary of State whether planning authorities in rural areas can properly take account of local needs for low cost housing in drawing up local plans and deciding planning applications; and if he will make a statement.

Draft Answer

In preparing their local plans authorities must ensure that adequate provision is made, consistent with the structure plan, for housing demand of all kinds. As was made clear in Circular 1/85, planning controls are concerned with the use of land rather than the identity of the user. The question of who is to occupy premises for which permission is to be granted will normally be irrelevant. Planning conditions should not, therefore, normally be used to restrict permissions for new housing to a particular form of tenure or a particular category of occupant.

I recognise, however, that in some rural areas there are genuine difficulties in securing an adequate supply of low cost housing for local needs. In such areas the existence of arrangements made by the developer, or between the developer and the landowner or the local authority, to ensure that new low-cost housing is made available for local needs could be a material consideration which the authority would take into account in deciding whether to grant planning permission. Such considerations might be particularly relevant to the release of small sites within or adjoining existing villages which would not otherwise be allocated for new housing.

Since planning conditions cannot normally be used to implement restrictions on tenure or occupancy, the planning authority would need to satisfy itself before granting planning permission that other secure arrangements to that effect would be made. Examples of such arrangements might be the involvement of a village trust or housing association with a suitable lettings policy; or covenants designed to give priority to first-time buyers from the locality, both initially and on subsequent resale; or an agreement between the planning authority and the developer under S.52 of the Town and Country Planning Act 1971.

Local plan policies should make clear that the release of such sites to secure provision of low-cost housing for local needs will be additional to the provision made in the plan for general housing demand. The objective is to ensure that housing provided specifically to meet particular local needs is made available only for that purpose, recognising that such requirements may justify the release of land that would not normally be allocated to meet general housing demand. It should be made clear that land allocated in the plan to meet general housing demand will not be confined to local needs only, and planning permission for such land should not be refused on the grounds that the developers or landowners are not prepared to enter into arrangements to secure provision for local needs.

The case for releasing additional land which would not normally receive planning permission for housing, in order to secure provision of low-cost housing for local needs, will be essentially a matter for local judgement. Where a planning authority refuses permission for such development, and the matter goes to appeal, I and my Inspectors will bear in mind the essentially local nature of the decision, though each case will be considered on its merits.

introduce some system of permanent "local passes" to earmarked housing.

(immense scope for corruption)
6. The effect of the former would be to transfer part of the planning gain from the owners of the land sold for development to identified members of the local community. If after a period of years the result was additional provision in the open market I don't see that we should oppose it. But I can imagine that there would be an enormous amount of local friction over the allocation of these houses, as indeed there is at the moment for housing association allocations.

7. The latter method, the introduction of "local passes", would definitely be distortive and would ossify the labour market. There would still be some benefit. Those housed in the new build would have otherwise been bidding up prices for the existing stock. But the aim of the government should be to increase the owner-occupied and the private rented sectors, operating in open markets. We are trying to remove the segmentation of the housing market. This proposal would go in the other direction.

8. So I think we should support Mr Ridley's proposal if he can reassure us on two points. First, we need to be sure that this proposal would result in additional stock, over and above what he thinks he can get built anyway. Secondly, we need to ensure that the housing stock ends up in the open market after a period of years.

9. We need more information than Mr Ridley's letter provides on both these points.

pp *RJ*
A G TYRIE

PWP

FROM: ALLEN RITCHIE
DATE: 12 JANUARY 1989

MS WALLACE

cc Sir T Burns
Mr Odling-Smee
Mr Sedgwick
Mr Grice
Mr Hibberd
Mr O'Donnell
Mr Dickson
Dr Kosmin

Ch/ The latest in a series of charts on house prices. Shows (on a log scale) house prices deflated by earnings.

HOUSE PRICES

Your minute of 22 December requested a chart showing house prices (the Nationwide Anglia Index) deflated by earnings. This is now attached.

2. It has taken some time to obtain a suitable average earnings series which goes back as far as 1953 - the first year for the Nationwide Anglia index. The attached chart in fact shows two series for real house prices. The first, which goes back to 1953, uses average weekly earnings for male manual workers from the DE's annual October survey. It is not possible to take this series forward past 1987 Q4. The second, which only goes back to 1963, uses a measure of average earnings for the whole economy constructed by dividing the total whole economy wage bill by employees in employment. I have taken this series up to 1988 Q3, which is as far as the Nationwide Anglia house prices series goes. (Q4 figures are due out this month). The 1988 Q3 figure for whole economy average earnings is in part an EA estimate.

3. The chart shows house prices in 1988 at an all-time high relative to average earnings. It also shows that the previous two peaks in house prices relative to earnings have been followed by quite sharp falls over the following three years.

V. Antonov

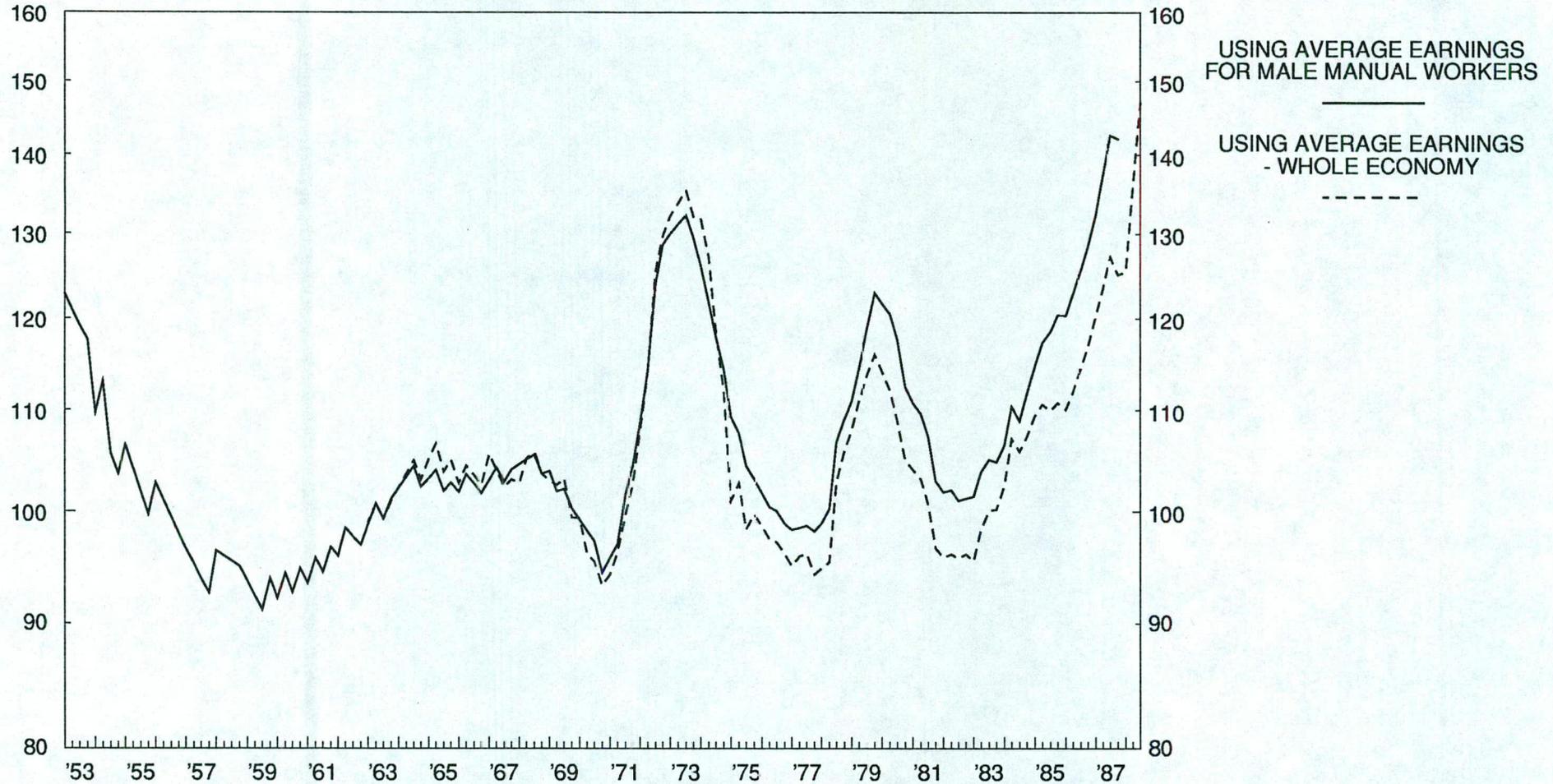
Allen Ritchie

ALLEN RITCHIE
FIM2

Real House Prices

- Using Average Earnings as a Deflator

1963 = 100



Real House Prices=House Prices/Average Earnings

Sources :- House Prices :- Nationwide Anglia Building Society
 Index of All Houses (at mortgage approval stage)
 Average Earnings :- Male Manual Workers : Dept. of Employment
 Annual Survey (October)
 Average Earnings :- Whole Economy : Total Wage Bill /
 Employees in Employment



FROM: A C S ALLAN
DATE: 13 January 1989

py

MR S N WOOD

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Burgner
Mr A J C Edwards
Mrs Lomax
Mr Betenson
Mrs Chaplin
Mrs Chaplin
Mr Tyrie
Mr Call

LOW COST HOUSING IN RURAL AREAS

The Chancellor has seen Mr Ridley's letter of 11 January to the Lord President, and Mr Tyrie's minute of the same date.

2. The Chancellor feels that, while the problem Mr Ridley seeks to solve is genuine, his proposed solution - a two-tier housing market - is very weird. The closest analogy would appear to be sales of council houses to sitting tenants at a discount. But here a benefit is being conferred on those who do not already enjoy the benefit of a (cheap) tenancy. This needs very careful analysis, both microeconomic and political.

3. He would be interested to know how the two-tier housing market in Switzerland works (Mr Tyrie's paragraph 4).

ACSA

A C S ALLAN



FROM: A C S ALLAN

DATE: 16 January 1989

Alex:

Mr O'Brien has now completed his work on this. He has passed it on to Mr Sedgwick, who's office have informed me that we should get something in the near future.

MR O'BRIEN

5402
~~4459~~

Tony 16/2

Ref 23/1

~~25/1~~

~~31/1~~

~~6/2~~

~~13/2~~

~~21/2~~

cc Sir T Burns
Mr Sedgwick
Mr Gieve
Mr Hibberd
Mr Price

RPI AND HOUSING COSTS

The Chancellor would be grateful for some background on what lay behind the decision in 1974 to switch from 'equivalent rent' to mortgage interest payments as the measure of owner occupiers housing costs. The RPIAC in its 1986 report said that by 1974 the concept of 'equivalent rent' was becoming unworkable because of the diminishing importance of the privately rented sector. Was not another reason that this change had been agreed between the Government and the TUC as part of the incomes policy?

A C S ALLAN

LOW COST HOUSING

CHIEF SECRETARY	
REC.	15 JAN 1989
ACTION	Mr S M Wood
COPIES TO	Ex Sir P Middleton
	Mr Anderson, Mr Phillips
	From the Private Secretary
	Mr Edwards, Mr Bugner
	Mrs Lomas, Mr Betensin
	Mr Call
	Sean Roger



PPP

10 DOWNING STREET
LONDON SW1A 2AA

16 January 1989

LOW COST HOUSING IN RURAL AREAS

The Prime Minister has seen a copy of your Secretary of State's letter to the Lord President.

The Prime Minister strongly agrees with your Secretary of State that it would not be right to make it possible for local authorities to grant planning permission restricted to particular forms of tenure or particular types of developer. As to the basis on which your Secretary of State proposes to go forward, she has commented that the guidance should make clear that if extra housing is made available and sold at a low price there would need to be restrictions on its resale for a certain period of time. Your Secretary of State's proposed speech and subsequent guidance to local authorities would also need to emphasise the point that planning permission must not differentiate between particular types of tenure or developer and must not be at the expense of other land designated for housing. It will also be important to make clear to housing associations (who, as your Secretary of State recognises, are those most likely initially to want to take advantage of relaxations granted by local authorities) that they should not expect their participation in such activity to lead to increased funding provision from Government. In short, the Prime Minister feels that your Secretary of State's proposal is worth an initial try but that it contains a number of potential pitfalls and will need careful monitoring in practice.

I am copying this letter to the Private Secretaries to the other members of H Committee, Shirley Stagg (Ministry of Agriculture, Fisheries and Food) and to Trevor Woolley (Cabinet Office).

Yours etc

Dominic

Dominic Morris

Roger Bright Esq
Department of the Environment

UNCLASSIFIED

FROM: S N WOOD
DATE: 17 January 1989

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Burgner
Mr Edwards
Mrs Lomax
Mrs Holmans o/r
Mr Betenson o/r
Mr Jessop
Mrs Chaplin
Mr Call
Mr Tyrie

LOW COST HOUSING IN RURAL AREAS

Mr Ridley's letter of 11 January to the Lord President proposed a modification to planning guidance to make additional land available for low cost housing in rural areas. Mr Tyrie's minute of the same date refers; Mr Allan reported your own comments on 13 January and the Prime Minister's office wrote to DOE with her views on 16 January. Your meeting with Mr Ridley tomorrow will be an opportunity to discuss the matter with him.

2. Mr Ridley made the point that planning permission for housing did not specify the form of tenure or the price, so the owner-occupier market tended to set land prices, with the consequence that land values were often too high to make low cost development feasible. He wants to identify land for low cost housing so its price is determined by that market. He rightly rejects allowing authorities to restrict planning permission to particular tenures or types of developer, but instead suggests new guidance to local authorities, of which they would have to take account in their planning. The guidance would allow them, having made provision for housing demand of all types, to plan for the release of additional land for low cost housing, provided suitable arrangements were made to ensure it was not subsequently turned into housing for sale at market prices.

3. Mr Ridley thought this would encourage local authorities to release infill and peripheral sites in villages, which would be additional, to meet local demand. He said he was responding to moves by some rural authorities, implying they were already implementing various proposals with this objective.

4. Two main issues are:-

(i) whether the proposal would yield additional housing land; and

(ii) whether the land made available would in practice be for housing for rent, or for sale.

5. On the first point, there seems a good chance that Mr Ridley's proposal would have this effect. Councils would continue to have to plan to meet demand for housing land at the market price and have land available for a 5 (not 54) year period. In so far as this can be tested, if necessary on appeal, against DOE guidance and county policies, there are safeguards against councils cutting into provision for the market to earmark sites for low cost housing. This needs to be carefully monitored, but in principle should work.

6. On the second point, Mr Ridley is quite clear (item (iii) of the guidance) that the housing built on this land should not subsequently be sold at market prices. But he does envisage either rent through a housing association with a suitable lettings policy, which can be controlled, or owner occupation with covenants perhaps restricting sale to "local" first-time buyers, including subsequent resales. I think the housing association proposal is acceptable, although as the Prime Minister pointed out no increase in Housing Corporation support should be offered on account of this. Much will depend on the Housing Corporation's priorities, and Mr Ridley is of course in a position to influence these.

7. The creation of a class of owner-occupied houses restricted to local first-time buyers is more difficult, however. Assuming the covenants would be enforceable, the residence qualification would be crucial. The "pool" of available buyers might be people born locally, or working locally (we would prefer the latter). Either way, the pool would vary with local demographics, and the market could be volatile if the qualification was restricted to those born in, or working in, one village or a few nearby, making the investment a very risky one for the buyer and particularly, in the first instance, the developer. However, the drafting of the residence qualification will be for negotiation between the authority and the developer, and outside Mr Ridley's control.

8. It is of course likely that the housing built would be small or otherwise of low quality. This in itself would put a damper on the subsequent resale price.

9. My conclusion is that the scheme is likely to result predominantly in housing association development for rent. But in so far as some owner-occupied housing was built, there is a risk of abuse, since the potential profits of resale at market price are high. The original landowner would be particularly aggrieved.

10. Mr Tyrie mentioned two-tier housing markets in Jersey and Switzerland. Jersey restricts those not born on the island to buying the most expensive houses, leaving the bulk of the stock to be traded by natives. We believe Switzerland has a similar system. Both, of course, go much further than Mr Ridley proposes and are backed (we think) by legislation. They are not precisely relevant to these proposals. But as Mr Tyrie sensibly points out, from the perspective of the overall housing market, the addition to housing supply would still be helpful even if the houses built in this way did move into the open market. But the scheme's objectives are more precisely targeted, and it would be judged a failure if the houses were sold at the market price.

11. In conclusion, I recommend that you take the opportunity to discuss the scheme with Mr Ridley under the "village housing" head when you meet him tomorrow, and suggest you take the line that you accept he should proceed with his announcement, but ask him whether he genuinely expects houses to be built for sale under these proposals and, if so, how he expects abuse to be avoided.

12. In case you want to follow up with a letter, I attach a draft.

S N WOOD

DRAFT LETTER FROM THE CHANCELLOR TO:

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

LOW COST HOUSING IN RURAL AREAS

I have seen your letter of 11 January to John Wakeham, and the comment from the Prime Minister's office dated 16 January.

We have had a word about this. I accept that there is a genuine problem here, and that your proposed solution, provided it leads to an additional supply of housing land, is attractive, but I am concerned about the practicality of the scheme. I ~~think there would be~~ ^{SEE} little difficulty if the additional land in practice went to housing associations, ~~assisted as necessary~~ within planned provision by the Housing Corporation. However, if the housing were sold for owner-occupation, ~~(and I fully accept that this should not be ruled out through the conditions of planning permission)~~ there must be a risk of abuse, effectively at the expense of the original landholder and of local people. ^{any} (On the other hand, the more tightly ~~the~~ restrictions are drawn, the more risk there is of locking the owners into an asset which ~~would~~ be hard to sell.)

For these reasons, the details of your proposals need very careful consideration and any scheme would need to be closely monitored. Subject to these points, I would be content for you to make your proposed statement.

I am copying this letter to the Prime Minister, to the members of H, to John MacGregor and to Sir Robin Butler.

NIGEL LAWSON



pwp

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

19 January 1989

cc

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

Sir P Middleton
Mr Anson
Mr Phillips
Mr Burgner
Mr Edwards
Mrs Lomax
Mr S Wood
Mrs Holmans o/r
Mr Betenson o/r
Mr Jessop
Mrs Chaplin
Mr Call
Mr Tyrie

LOW COST HOUSING IN RURAL AREAS

I have seen your letter of 11 January to John Wakeham, and the comment from the Prime Minister's office dated 16 January.

We have had a word about this. I accept that there is a genuine problem here, and that your proposed solution, provided it leads to an additional supply of housing land, is attractive, but I am concerned about the practicality of the scheme. I see little difficulty if the additional land in practice went to housing associations, within planned provision by the Housing Corporation. However, if the housing were sold for owner-occupation there must be a risk of abuse, effectively at the expense of the original landholder and of local people. (On the other hand, the more tightly any restrictions are drawn, the more risk there is of locking the owners into an asset which could be hard to sell.)

For these reasons, the details of your proposals need very careful consideration and any scheme would need to be closely monitored. Subject to these points, I would be content for you to make your proposed statement.

I am copying this letter to the Prime Minister, to the members of H, to John MacGregor and to Sir Robin Butler.

NIGEL LAWSON



2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

Michael Saunders Esq
PS/Solicitor General
Law Officer's Department
Attorney General's chambers
Royal Courts of Justice
WC2A 2LL

CHIEF SECRETARY

REC.	19 JAN 1989
ACTION	Mr S. Wood
COPIES TO	Cx Sir P Middleton Mr Anson, Mr Phillips Mr Edwards, Mr Burgess Mrs Lomax, Mr Betenson Mr Call.

19 January 1989

Dear Michael

LOW COST HOUSING IN RURAL AREAS

Cabinet Office have pointed out to me that the Solicitor General might be interested to see the letter which my Secretary of State sent to his colleagues on H on 11 January concerning his proposals to encourage low cost housing in rural areas. I therefore attach a copy.

I am copying this letter (but not the attachment) to Dominic Morris (No.10), Private Secretaries to other members of H Committee, Shirley Stagg (MAFF) and to Shaun Munday (Cabinet Office).

Yours

A D RING
Private Secretary



CH/EXCHEQUER	
REC.	20 JAN 1989
ACTION	CST
COPIES TO	

QUEEN ANNE'S GATE LONDON SW1H 9AT

✓ 20/1

19 January 1989

JWP

Dear Nicholas,

LOW COST HOUSING IN RURAL AREAS

Thank you for sending me a copy of your letter to John Wakeham dated 11 January.

I agree strongly with your analysis of the acute difficulties which are now faced by local people in many parts of rural England in securing adequate housing in their own villages and districts. These people include many of our supporters. It is therefore both right in principle and politically desirable to take an initiative of the sort which you propose.

I agree with you that land released specifically for the building of low-cost housing should be additional to land released for general housing provision. Your plan to provide extra low-cost housing for local needs is one which I warmly support.

I am copying this letter to the Prime Minister, to other members of H Committee, to John MacGregor and to Sir Robin Butler.

*Copy
Butler*

The Rt Hon Nicholas Ridley, MP
Secretary of State
Department of the Environment

CONFIDENTIAL

EXAMPLE 1: LONDON

A tenant lives in a council house, worth the average London price of £60,000. He has been a tenant for 10 years, and therefore qualifies for a 40% Right-To-Buy (RTB) discount. He currently pays the London average rent of £21 per week. After deducting £5 for upkeep, the balance of £16 per week would support a mortgage of £7,800.

OPTION I

OPTION II

a. The tenant's mortgage will buy 7,800/60,000 or 13% of the property.

b. The free initial discount (RTB-10%) is 30% of the property.

c. The tenant's total stake is therefore 13%+30% or 43% of the property, worth £25,800.

d. The public sector has a charge of 57% on the property.

a. The RTB discount is worth 40% of £60,000, or £24,000. The RTB discounted price is therefore £36,000.

b. The tenant's mortgage will meet 7,800/36,000 or about 22% of the discounted price.

c. The tenant's total stake in the house is therefore about 22%, worth £13,000.

d. The public sector has a charge of about 78% on the property.

CONFIDENTIAL

CONFIDENTIAL

EXAMPLE 2: AVERAGE PRICE AREA (ENGLAND)

A tenant lives in a council house worth £30,000, the England average price. He has been a tenant for 25 years and has therefore qualified for a Right-To-Buy (RTB) discount of 55%. The tenant is paying the average rent for England of £18.50 per week. After deducting £5 for upkeep, the balance of £13.50 per week would support a mortgage of £6,600.

OPTION I

OPTION II

a. The tenant's mortgage will buy 6,600/30,000 or 22% of the property.

a. The RTB discount is worth 55% of £30,000 or £16,500. The RTB discounted price is therefore £13,500.

b. The free initial discount (RTB-10%) is 45% of the property.

b. The tenant's mortgage will meet 6,600/13,500 or about 49% of the discounted price.

c. The tenant's total stake is therefore 22%+45% or 67% of the property, worth £20,100.

c. The tenant's total stake is therefore about 49%, worth about £14,700.

d. The public sector has a charge of 33% on the property.

d. The public sector has a charge of about 51% on the property.

CONFIDENTIAL

EXAMPLE 3: LOW PRICE AREA

A tenant lives in a council house in a low price area, worth £20,000. He has been a tenant for 30 years, and therefore qualifies for the maximum Right-To-Buy (RTB) discount of 60%. He currently pays rent of £17 per week. After deducting £5 for upkeep, the balance of £12 per week would support a mortgage of £5,850.

OPTION I

- a. The tenant's mortgage will buy $5,850/20,000$ or about 29% of the property.
- b. The free initial discount (RTB-10%) is 50% of the property.
- c. The tenant's total stake is therefore about $29\%+50\%$ or 79% of the property, worth £15,850.
- d. The public sector has a charge of about 21% on the property.

OPTION II

- a. RTB discount is worth 60% of £20,000 or £12,000. The RTB discounted price is therefore £8,000.
- b. The tenant's mortgage will meet $5,850/8,000$ or about 73% of the discounted price.
- c. The tenant's total stake in the house is therefore about 73%, worth £14,600.
- d. The public sector has a charge of about 27% on the property.

SUMMARY OF FINANCIAL RESULTS

Tables I, II, and III show the financial results, on assumptions specified, of Option I with and without special terms for older tenants, and of Option II. The cash flows are shown, in cash terms, in years 1, 2, 3, 4, and 7; and the net present values (NPV) at year 1 prices. The figures refer to England and Wales except where noted.

2. Financial results are shown including and excluding partial replacement of the houses that would have become available for re-letting to new tenants by local authorities if they had not been transferred to flexi-ownership. In England two-thirds of the lost re-lets are assumed to be replaced. The replacement is by housing associations, with mixed funding and the grant rates for 1988/89.

3. Financial results are also shown excluding and including voluntary purchases of equity, over and above the minimum that is required. The amounts of voluntary equity purchase assumed are:

(a) Right-to-Buy purchasers who switched to flexi-ownership or RTM would put into voluntary equity purchase one-half of the difference between the mortgage outgoings on the flexi-ownership/RTM minimum payment and the outgoings they would have incurred to exercise RTB, increased each year in line with earnings, for the term of the mortgage.

(b) Other households would put into equity purchase one half of the difference between outgoings for flexi-ownership/RTM (mortgage outgoings and upkeep) and the rent they would have paid had they stayed as tenants.

I. OPTION I WITH SPECIAL TERMS FOR OLDER TENANTS

(£ million)

		.....Years.....					
		1	2	3	4	... 7	NPV
<u>Case A</u>							
(1)	No replacement, no voluntary equity purchase	+146	+600	+629	+688	+736	+12,746 (a)
(ii)	Includes replacement, no voluntary equity purchase	+146	+565	+481	+452	+246	+301
(iii)	Includes replacement, voluntary equity purchase at all ages	+146	+573	+511	+480	+312	+848
<u>Case B</u>							
(iv)	No replacement, no voluntary equity purchase	-1,017	-638	-551	-339	-115	+5,301 (b)
(v)	Includes replacement, no voluntary equity purchase	-1,017	-659	-633	-480	-407	-1,988
(vi)	Includes replacement, voluntary equity purchase at all ages	-996	-591	-521	-333	-155	-169 (c)

Notes: (a) No replacement but with assumed voluntary equity purchase would give +13,293

(b) No replacement but with assumed voluntary equity purchase would give +7,120

(c) If voluntary equity purchase were assumed to be one-quarter instead of one-half of the reduction in outgoings, the figure would be -1,079

II. OPTION 1 WITH NO SPECIAL TERMS FOR OLDER TENANTS

		(£ million)							
		.....Years.....						
<u>Case A</u>		1	2	3	4	...7	NPV	NPV	
								Inclu-	Scot-
								ding	land
								+6,757	+7,073
									(a)
(i)	No replacement no voluntary equity purchase	+322	+977	+853	+870	+436			
(ii)	Includes replacement, no voluntary equity purchase	+322	+960	+787	+658	+200	-80	+70	
(iii)	Includes replacement, voluntary equity purchase at all ages	+323	+964	+799	+674	+246	+390	+561	
<u>Case B</u>									
(iv)	No replacement, no voluntary equity purchase	-746	-358	-331	-214	-210	+1,182	+1,100	
(v)	Includes replacement, no voluntary equity purchase	-746	-371	-377	-293	-373	-1,929	-2,085	
(vii)	Includes replacement voluntary equity purchase at all ages	-730	-319	-395	-182	-184	-277	-213	
									(c)

Notes: (a) No replacement but with assumed voluntary equity purchase would give +7,564

(b) No replacement but with assumed voluntary equity purchase would give +2,972

(c) If voluntary equity purchase were assumed to be one-quarter instead of one half of the reduction in outgoings, the figure would be -1,149

III. OPTION II

(£ million)

		.....Year.....						
<u>Case A</u>		1	2	3	4	...7	NPV	NPV
								Inclu- ding Scot- land
(i)	No replacement, no voluntary equity purchase	+140	+500	+436	+380	+199	+4,131	+4,174 (a)
(ii)	Includes replacement, no voluntary equity purchase	+140	+492	+403	+324	+82	+348	+301
(iii)	Includes replacement, voluntary equity purchase at all ages	+141	+496	+410	+337	+115	+831	+803
<u>Case B</u>								
(iv)	No replacement, no voluntary equity purchase	-678	-394	-337	-270	-171	+1,779	+1,651 (b)
(v)	Includes replacement, no voluntary equity purchase	-678	-399	-356	300	-234	-263	-444
(vi)	Includes replacement, voluntary equity purchase at all ages	-669	-370	-309	240	-125	+834	+848 (c)

Notes: (a) No replacement but with assumed voluntary purchase of equity would give +4,676

(b) No replacement but with assumed voluntary purchase of equity would give +2,943

(c) If voluntary equity purchase were assumed to be one-quarter of the reduction in outgoings instead of one-half the figure would be +202



Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

CHIEF SECRETARY	
REC.	23 JAN 1989
ACTION	Mr S. [unclear]
COPIES TO	Cx Sir P. [unclear] Mr Anson, Mr Phillip Mr Edwards, Mr [unclear] Mrs Loux, Mr [unclear]

From the Minister

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1

ppw

20 January 1989

Mr Call

Dear Nick,

LOW COST HOUSING IN RURAL AREAS

Thank you for sending me a copy of your letter of 11 January to John Wakeham. The problems of finding affordable rural housing are of considerable interest both to my Department and to me personally.

The issue is raised with me often when I tour the country on agricultural matters and also in my rural constituency where property prices have been rising fast. Therefore, I very much endorse any proposals aimed at finding further ways to facilitate lower cost housing provision in rural areas. It is important that our new policies for the rural economy are not hindered unnecessarily by lack of housing at reasonable cost; and it is clearly politically very important.

The Housing Corporation funding for schemes undertaken by rural housing associations can make a useful contribution to this and I was pleased to see that you are discussing with the Corporation the targets for later years. However, as you recognise, funding alone will not provide the answer and I was particularly pleased to see that you were proposing a further policy initiative through the planning system. I appreciate your reasons for not wishing to make it possible for authorities to grant permissions restricted to a particular form of tenure, or to, for example, housing associations and agree that the only way forward, within the existing legal framework, would be along the lines you suggest. I believe this will help to meet some of the concerns on this issue expressed by organisations such as Rural Voice, the Rural Development Commission, the NFU and the CLA.

/There are, however...

There are, however two points which could have a bearing on the success of this initiative and the reception it is given. First, I understand that an owner prepared to sell his land for less than the normal market price may find himself liable for tax on the full market value in some circumstances. It would obviously be a disincentive were that to happen but the arrangements you propose may avoid the problem, because the land concerned would command a market price below the full development value. Nevertheless, it might be as well to clarify this point with the Inland Revenue.

Second, is the question of explaining exactly, in the speech and subsequent guidance to local authorities, the sort of arrangements envisaged. Some of those who are keen to encourage low cost housing have expressed concern to me that some methods which have been considered at local level to facilitate such housing may not be legally possible. There is clearly still uncertainty among planners. It will, therefore, be important that the details of the initiative and the examples are clear so that all concerned understand what is and what is not achievable.

Bearing these points in mind, I do hope that you will be able to make an early announcement along the lines you suggest. I would be grateful if your officials could keep in touch with mine over timing because I am sure it will be of considerable interest to the farming community. For this reason I propose to make a supportive statement timed to fit in with your announcement, the text of which I will, of course, clear with you.

I am copying this letter to the Prime Minister, John Wakeham, other members of H Committee and to Sir Robin Butler.

✓
Yours ever,



JOHN MacGREGOR

py

Department of the Environment

**LAND FOR HOUSING
PROGRESS REPORT: 1988**

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Annexes

Annex A - Structure Plan Housing Provision: Remaining Provision at Recent Housebuilding Rates.

Map 1 - Remaining Housing Provision in Structure Plan in England at Average Annual Housebuilding Rates 1983-87.

Annex B - Structure Plan Housing Provision: Comparison between Approved Plans and Alterations (at latest stage).

Annex C - Housebuilding Rates - Starts and Completions 1974 to 1987.

Map 2 - Average Annual Completions, 1983-87, per 1,000 hectares: By County.

Annex D - Private Dwelling Completions in the South East as a proportion of Total Private Completions in England, 1974 to 1987.

Annex E - Land Availability Studies: Joint and Non-Joint.

Annex F - Housing Land Prices.

LAND FOR HOUSING PROGRESS REPORT

INTRODUCTION

1. This Report reviews the provision for housing in structure plans and the availability of land for housing. It also includes information on recent housebuilding rates and on housing land prices. The Report is intended to provide an overall picture of the land supply position and to highlight recent trends.
2. Generally, the Report assesses the position at the end of March 1988 although some information, including housebuilding rates, relates to the end of 1987. The Report follows the first 'Land for Housing Progress Report', published at the end of 1987.
3. Though the Department believes the overall picture presented by this Report to be reliable, individual figures should be treated with caution, since they are subject to varying degrees of accuracy in recording and reporting. Footnotes included in the annexes to the Report should therefore be carefully noted.

STRUCTURE PLAN HOUSING PROVISION

4. The Table at Annex A shows the remaining housing provision in structure plans at March 1988. It indicates that 34 out of the 39 counties for which figures are available have sufficient remaining housing provision to allow housebuilding to continue at 1983-87 rates for at least 5 years. At building rates over the most recent 3 years, 1985-87, the same number of counties have sufficient remaining provision.
5. With the exception of the submitted alteration for East Sussex - Western Area, all plans in the South East, for which a comparison can be made, have at least 5 years housing provision, at recent housing rates.

6. Comparison between Col.8 and Col.6 of the Table shows that in 21 out of the 39 counties the remaining structure plan housing provision would last longer than the unexpired period of structure plan housing policies if 1983-87 building rates were to continue. When comparison is made with housebuilding rates 1985-87, again the same number of counties are in this position.
7. The general pattern of remaining housing provision in structure plans is illustrated in Map 1, Annex A, which is based on data in Col 8 of the Table. In interpreting the map, particular note should be made of the end date for the housing policy period; for example, of the 5 counties with less than 5 years' remaining provision, all but one have plans with housing policy periods which expire in 1991, and 3 of the counties are currently in the process of rolling forward their plans (see Annex B).
8. In Merseyside, South Yorkshire and West Yorkshire, where updating of structure plans expiring in 1986 has been prevented by abolition, the 5 year housing land requirement has been taken as 5 times the average annual housebuilding rate in the period covered by the approved housing policies (Circular 30/85). A comparison between the 5 year requirement and housebuilding rates, 1983-87, shows that in all 3 counties recent housebuilding rates have been lower than in the structure plan period (Footnote 4 to Annex A).
9. Annex B shows general trends in structure plan alterations by comparing average annual housing provision in plans as approved with annual provision in proposed alterations. (Alterations range from consultation drafts to published modifications. In the Table, comparison is made between the approved plan and the provision proposed in the most recent stage of the emerging alteration.)
10. The Table shows that there are proposed structure plan alterations or replacement plans for 27 counties. In 25

counties it is possible to compare provision in approved plans with that in alterations or replacements. In 8 counties the proposed provision is above that already approved (with proposed increases ranging from 3-20%). In the remaining 17 counties proposed alterations reduce provision by an average of 17% (with proposed decreases ranging from 1-38%).

HOUSEBUILDING RATES

11. Housebuilding performance in England 1974-1987 is given at Annex C. This shows that total starts (Annex C(i)) and completions (Annex C(ii)) of the last 8-9 years have been below the levels reached in the mid 70s. Private sector housebuilding, however, has risen steadily over recent years and in 1987 was at its highest level since 1973. Private sector housing starts in 1987 were up by 10% on the previous year to 169,000 dwellings and completions up by 5% to 149,000 dwellings. Public sector housebuilding has experienced a general downward trend since the mid 1970's.
12. At the regional level, East Anglia experienced a particularly marked increase in starts of 22% (2,800 dwellings) on the 1986 level. Large increases on the previous year were also seen in the East Midlands with a rise of 14% (2,500 dwellings), in Yorkshire and Humberside (15% or 2,000 dwellings), and in the South West (10% or 2,400 dwellings). In Greater London the number of starts rose by 7% and completions by 20%.
13. Both absolutely and as a proportion of total private sector housebuilding in England, housebuilding in the South East has tended to increase in the 1980's. In 1987 private sector completions continued to increase in the South East (excluding London), although as a proportion of national provision they fell slightly (Annex D). In 1987, 30% of private sector completions in England were in the Outer Metropolitan Area and Outer South East England, compared with a quarter in 1974.

14. Map 2 at Annex C shows the average annual completion rate, 1983-87, per 1,000 hectares for each county in England. The fact that the map is based on the total area of each county means that no allowance has been made for areas which are already built-up or areas where there are strong constraints on development, for example, Green Belts, National Parks and Areas of Outstanding Natural Beauty. Accepting these limitations the Map indicates that, compared with their overall area, the highest levels of housebuilding were experienced in London and most of the former Metropolitan counties as well as in a number of South Eastern counties. Comparatively low levels were seen in northernmost counties, and to a lesser extent in the South West, in counties along the East Coast, (outside the South East), and in counties to the south and west of the West Midlands conurbation.

LAND AVAILABILITY STUDIES

15. Annex E(i) indicates that less than half of counties in England have up-to-date joint land availability studies (ie. studies undertaken with representatives of the housebuilding industry, as recommended in Planning Policy Guidance Note No.3). Of the 20 studies covering whole counties, with a base date of 1983 or later, 13 indicate an identified 5 year supply sufficient to meet structure plan requirements. In 4 counties the studies indicate a shortfall at the county level. These are Bedfordshire, Buckinghamshire, Surrey and West Sussex. However, the Bedfordshire and Buckinghamshire studies have base dates of 1984 and 1983 respectively (and therefore the position may have changed). In three other counties there may also be shortfalls, but here again two of the studies have base dates of 1984 or earlier, and are becoming out of date.

16. A number of counties have carried out their own land availability studies (Annex E(ii)). Although the results of these studies have not been agreed with representatives of the housebuilding industry, they generally provide more recent

information on housing land availability than the latest joint studies. Of the 17 non-joint county studies with base dates of 1986 or later, (ie. excluding the Kent study, for which there is a more recent joint study), all but 1 indicates a 5 year supply in the county as a whole. However, 12 studies identify shortfalls at district level.

17. The results of the land availability studies are generally supported by the findings of the latest County Planning Officers' Society (CPOS) report on structure plans and housing land. This Report indicates that the land expected to be available for development within 5 years in England (excluding London) exceeds the residual structure plan requirement by about 21%. The Report concludes that 'in all regions the overall level of available land for housing exceeds structure plan 5 year requirements', although it acknowledges that in most regions there are local shortfalls in individual counties.
18. Although the CPOS Report was published in February 1988 most of the data used in compiling the CPOS Report relate to the position in 1986. Also, in the majority of cases, the 5 year supply of housing land identified by the local planning authorities has not been agreed with the housebuilding industry.
19. Of the 8 counties in the South East region which have joint studies with base years of 1983 or later, 4 indicate a shortfall and one, a possible shortfall, at county level. However, 3 of the studies with shortfalls/possible shortfalls are relatively old, having base years of 1984 or earlier. Moreover, of the 7 counties with recent non-joint studies, only one, Kent, indicates a shortfall in the county as a whole, and this study has been superseded by a more up-to-date joint study which shows that a 5 year supply does exist over the county as a whole. At a more local level, 6 of the 7 non-joint studies identify shortfalls in one or more districts or policy areas.

20. The latest housing land supply report by the South East Regional Planning Conference, SERPLAN, published in June 1988, supports the findings of the individual county studies for the South East. The SERPLAN report concludes that there is no county in the South East which has an overall shortage of housing land in relation to requirements in structure plans, although there may be local shortfalls in some areas.
21. Annex E(iii) lists 9 counties where joint studies are currently in progress. In addition, separate studies are being prepared for a number of districts..

HOUSING LAND PRICES

22. The Department's information on housing land prices suggests that the price index for private sector housing land rose in 1987 by 30% over 1986. This follows similar increases in 1985 (26%), and 1986 (27%).
23. Annex F Charts 1 and 2 show that the price in money terms for private sector housing land has risen since 1977. Land prices have also risen in real terms since 1983 (ie. when deflated by the retail price index). Annex F Chart 3 shows the trend in real land prices in England and Wales since 1970.
24. The average price of land as a proportion of the price of new houses has risen in the last few years, particularly in the South East (Chart 4).
25. Annex F Table 1 and Chart 5 give some indication of the variations in land prices between different regions, but the figures must be treated with caution as regional average prices are based on relatively small numbers of sales of land which is of widely differing 'quality'. Nevertheless, certain trends are apparent. Since 1980, the base year, the price of land has risen most in the South East, particularly in the Outer Metropolitan Area. In 1987 the weighted average price of housing land in the South East (including Greater London) was

about 3 times as high as the average for the rest of the country and 90% higher than the next highest region, the South West.

CONCLUSIONS

26. The main findings of the report are similar to those of the first report, published in November 1987:

- a) Most structure plans make sufficient provision to sustain housebuilding rates of the recent past.
- b) 1987 saw the highest level of private sector housebuilding since 1973.
- c) Less than half of counties in England have current joint land availability studies. Of the 20 studies covering whole counties, with base years of 1983 or later, almost two-thirds indicate an adequate 5 year supply of housing land at county level. However, 12 joint studies identify local shortfalls in one or more district (or policy area), and 4, a possible shortfall at district level.

Of the 17 county studies carried out by local authorities alone, with base years of 1986 or later, all but 1 identify a 5 year supply in the county as a whole. 12 studies identify local shortfalls in one or more district (or policy area).

- d) Two-thirds of current structure plan alterations/replacement plans propose a lower average annual level of housing provision in future years compared to that in approved plans.
- e) The real price of housing land has continued to rise. Evidence suggests that the price of private sector housing land rose by 30% in 1987. This follows increases of 27% in 1986 and 26% in 1985.

STRUCTURE PLAN HOUSING PROVISION: REMAINING PROVISION AT RECENT HOUSEBUILDING RATES

REGION/COUNTY	STRUCTURE PLAN				AT END 1987								STATUS OF PLAN (UP TO AND INCLUDING MARCH 1988)									
	Time Period ¹ for Housing Provision	No of Years	Housing Provision Dwellings ²	Net/ Gross 2(iv)	Number of Dwellings Remaining ³	NUMBER OF YEARS			STRUCTURE PLAN RATE													
						Of Plan remain- ing	HOUSING PROVISION		per annum over remainder of plan period	% difference compared with 83-87 building rates	% difference compared with 85-87 building rates											
Col (1)	(2)	(3)	(4)	(a)	(5)	(6)	at structure plan rates	at 83-87 building rates				at 85-87 building rates	(7)	(8)	(9)	(10)	(11)	(12)	(13)			
EAST ANGLIA																						
Cambridgeshire	1986-2001	15	57,400 ⁶	N	50,155	13.5	13.1	11.1	10.9	3,715	-18	-19	submitted replacement approved approved									
Norfolk	1981-1996	15	57,000	N	33,869	8.5	9	8.8	8.5	3,985	+3	0										
Suffolk	1984-1996	12	42,000	G	30,367	8.5	8.7	9.5	9.4	3,573	+11	+10										
EAST MIDLANDS																						
Derbyshire	1976-1996	20	64,900 ^{7,8}	N	17,936	8.5	5.5	5.2	5.4	2,110	-39	-37	approved approved									
Leicestershire (incl Rutland)	1981-1996	15	57,150	N	36,468	8.5	9.6	11.1	11.3	4,123	+25	+27										
Lincolnshire	1976-1991	15	42,850	N	7,896	3.5	2.8	2.6	2.5	2,256	-25	-29	approved submitted replacement approved									
Northamptonshire	1983-2001	18	41,900	N	26,613	13.5	11.4	8.1	7.5	1,971	-40	-44										
Nottinghamshire	1976-1996	20	74,500	N	23,348	8.5	6.3	7.7	7.5	2,747	-10	-12										
NORTHERN																						
Cleveland - EW and Teeside	Mar 71-Mar 91	20	50,900	G	) NO SINGLE TIME PERIOD)								approved								
- Hartlepool	Mar 76-Mar 91	15	7,900	G																		
Durham	1983-1996	13	17,000 ⁹	N										8,803	8.5	6.7	5.0	5.2	1,036	-41	-39	submitted alterations approved alterations approved
Northumberland	1981-1996	15	19,500	N										12,951	8.5	10.0	12.9	13.3	1,524	+52	+56	
Tyne and Wear	1978-1991	13	44,000	G										11,987	3.5	3.5	4.2	4.9	3,425	+19	+39	
NORTH WEST																						
Cheshire	1979-1991	12	55,900 ¹⁰	G	18,807	3.5	4.1	4.8	4.9	5,373	+38	+41	approved submitted alterations									
Cumbria (incl Lake District)	1981-1996	15	23,600	G	14,760	8.5	9.4	10.3	9.6	1,736	+21	+12										
Greater Manchester	1981-1991	10	94,600 ¹¹	N	50,773	3.5	5.4	7.8	8.2	14,507	+122	+133	approved submitted replacement -									
Lancashire	1986-1996	10	38,000 ¹²	N	32,660	8.5	8.6	8.7	9.3	3,842	+2	+10										
Merseyside	1976-1986	10	59,500	G	PLAN PERIOD EXPIRED - BUT SEE FOOTNOTE 4																	
SOUTH EAST																						
Bedfordshire	Jan 81-Jan 96	15	38,750	N	23,430	8.5	9.1	9.6	8.8	2,756	+13	+4	approved published mods submitted alterations									
Berkshire	Apr 84-Apr 96	12	43,500	N	26,743	8.25	7.4	5.6	6.3	3,242	-32	-23										
Buckinghamshire	Apr 86-Mar 2001	15	53,500 ¹³	G	46,185	13.5	12.9	9.9	10.3	3,421	-27	-23										
East Sussex	Apr 81-Apr 96	15	41,000 ¹⁴	N	22,506	8.25	8.2	7.8	7.6	2,728	-5	-7	approved submitted alterations submitted alterations									
- Western Area	1985-2001	16	12,600 ¹⁵	N	7,442	13.5	8.9	4.0	3.8	551	-70	-72										
Essex	Apr 86-Mar 2001	15	81,200 ¹⁶	G	67,280	13.5	12.4	9.7	9.5	5,078	-27	-28										

REGION/COUNTY	STRUCTURE PLAN				AT END 1987								STATUS OF PLAN (UP TO AND INCLUDING MARCH 1983)
	Time Period ¹ for Housing Provision	No of Years	Housing Provision Dwellings ²	Net/ Gross 2(iv)	Number of Dwellings Remaining ³	Of Plan remain- ing	HOUSING PROVISION			STRUCTURE PLAN RATE			
							at structure plan rates	at 83-87 building rates	at 85-87 building rates	per annum over remainder of plan period	% difference compared with 83-87 building rates	% difference compared with 85-87 building rates	
Col (1)	(2)	(3)	(4)	(a)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Hampshire:													
SW Hampshire	Apr 80-Mar 96	16	8,500	N	)								approved
S Hampshire	Apr 82-Mar 96	14	58,000	N	)								approved alteration
Mid Hampshire	Apr 85-Mar 2001	16	15,450	N	) NO SINGLE	TIME PERIOD - BUT SEE	FOOTNOTE 5	TO ANNEX B					submitted alteration
N E Hampshire	Apr 82-Mar 2001	19	29,650	N	)								submitted alterations
Hertfordshire	Apr 81-Mar 96	15	62,500	G	36,415	8.25	8.8	9.2	10.6	4,414	+12	+29	approved
Isle of Wight	Jan 85-Jan 96	11	6,000	G	4,944	8	9.1	10.6	11.7	618	+33	+46	approved
Kent	1986-2001	15	79,200	N	69,485	13.5	13.2	11.3	10.6	5,147	-16	-21	submitted alterations
Oxfordshire	Apr 81-Mar 96	15	40,700	N	23,329	8.25	8.6	8.2	8.3	2,828	0	+1	approved alterations
Surrey	Mar 86-Mar 2001	15	39,100 ¹⁷	N	30,165	13.25	11.6	6.5	6.3	2,277	-51	-52	published mods
West Sussex	1984-1996	12	37,900	G	23,936	8.5	7.6	7.1	6.9	2,816	-16	-18	published mods
SOUTH WEST													
Avon	Apr 85-Apr 96	11	41,300	N	33,542	8.5	8.9	11.2	10.9	3,946	+31	+28	published mods
Cornwall	1976-1991	15	37,500	G	12,238	3.5	4.9	5.4	5.2	3,497	+55	+49	approved
Devon	1981-1996	15	68,400	N	39,570	8.5	8.7	8.1	7.6	4,655	-5	-10	approved
Dorset: - SE	1986-2001	15	29,500	N	)								submitted
- excl SE	Apr 80-Apr 96	16	19,000	N	) NO SINGLE	TIME PERIOD							approved
Gloucestershire	1976-1996	20	42,000	N	12,691	8.5	6.0	4.9	4.5	1,493	-43	-47	approved
Somerset	1981-1996	15	36,750	N	20,975	8.5	8.6	8.3	8.3	2,468	-2	-2	approved
Wiltshire (NE)	Apr 85-Apr 96	11	18,900)	N									submitted alterations
Wiltshire (S)	Apr 85-Apr 96	11	5,400)	N	30,112	8.25	8.6	9.6	9.5	3,650	+16	+16	submitted alterations
Wiltshire (W)	Apr 85-Apr 96	11	14,150)	N									submitted alterations
WEST MIDLANDS¹⁷													
Hereford and Worcs	Apr 81-Apr 91	10	36,100	N	14,874	3.25	4.1	4.5	4.4	4,577	+40	+37	approved
Shropshire	1981-1996	15	32,800	N	21,613	8.5	9.9	13.6	13.8	2,543	+60	+63	approved
Staffordshire	1979-1991	12	62,350	N	26,061	3.5	5.0	6.7	6.5	3,446	-91	-62	approved
Warwickshire	1981-1996	15	28,950	N	16,455	8.5	8.5	8.8	8.6	1,936	+3	+2	approved
West Midlands	1981-1991	10	85,600 ¹⁸	N	45,179	3.5	5.3	7.2	8.2	12,908	+105	+135	approved
YORKSHIRE AND HUMBERSIDE													
Humberside	Jul 84-Jun 96	12	45,000	N	34,275	8.5	9.1	11.7	11.3	4,032	+37	+32	approved
North Yorkshire	1981-1996	15	42,000	N	23,509	8.5	8.4	8.0	8.2	2,766	-6	-3	approved
South Yorkshire	1976-1986	10	63,100	N)								
West Yorkshire	Apr 79-Apr 86	7	80,000	N	) PLAN PERIOD EXPIRED - BUT SEE	FOOTNOTE 4							
GREATER LONDON			NO QUANTIFIED PROVISION IN PLAN: SEE FOOTNOTE 5										

FOOTNOTES TO ANNEX A

GENERAL

1. The time period for housing provision figures is assumed to run from mid-year unless otherwise indicated.

2. i. No allowance has been made for phasing of housing provision during the plan period in determining, the average annual rates of provision.

ii. Where a range of housing provision is specified in the structure plan the upper limit has been used.

iii. Structure Plan housing provision figures may not be strictly comparable either between counties or with recent housebuilding rates due to differences in definition. For example, while some counties express their housing provision in gross terms, others make provision for net additional dwellings ie after allowing for reductions in the existing housing stock. The report uses information on new housebuilding available to the Department. No account has been taken of conversions or demolitions.

3. Remaining housing provision (col 5) is calculated by deducting the number of dwellings completed from the total housing provision (col 4). The building completion rates, which exclude conversions, are those reported to the Department by local authorities; the NHBC report activity in respect of those dwellings which they inspect for building control purposes.

METROPOLITAN
COUNTY COUNCILS

4. In Merseyside, South Yorkshire and West Yorkshire, updating of structure plans has been prevented by abolition (1 April 1986). In such cases the 5 year housing land requirement has been taken as 5 times the average annual housebuilding rate in the period covered by the approved structure plan housing policies.

It may therefore be useful to compare the 5 year requirement with the number of dwellings completed over the last 5 years. The position is as follows:

Abolished metropolitan counties with structure plans expiring in 1986	5 year housing land requirement (i)	Dwellings completed (ii) 1983-87	% difference between 5 year requirement and recent housebuilding rates (Col 3-Col 2)
(1)	(2)	(3)	(5)
Merseyside (iii) (1976-1986)	21,200	20,484	-3
South Yorkshire (1976-1986)	23,500	17,165	-27
West Yorkshire (1979-1986)	28,700	24,869	-13
(FIGURES ROUNDED TO NEAREST HUNDRED)			

(i) The 5 year land requirement is calculated as 5 times the actual average annual housebuilding rate (ii) in the period covered by the approved structure plan housing policies. Thus there is a difference between the manner in which the 5 year requirement is calculated for those areas governed by Circular 30/85 and those areas governed by Circular 15/84.

(ii) New housebuilding completions are reported to the Department by local authorities and the NHBC.

(iii) The Secretary of State published strategic guidance for Merseyside in August 1988. This identifies an overall requirement for 49,500 dwellings between 1986 and 2001.

GREATER LONDON/
SOUTH EAST

5. The Greater London Development Plan, approved in 1976, does not quantify housing provision or specify start and end dates for housing policies. SERPLAN'S Regional Statement envisages an increase of 15,000 dwellings in Greater London, 1991-2001. The Secretary of State, in his response to SERPLAN, noted that this provision presupposes a continuing high level of conversions and a rate of private sector housebuilding much higher than that achieved in the recent past. SERPLAN are currently reviewing evidence for the South East for the period 1991 to 2001. In the light of the 1985 household projections and other factors, the Secretary of State and SERPLAN have agreed that it would be reasonable to make provision for new dwellings, in the South East as a whole, during the decade 1991 to 2001, in the range 560,000-580,000. It is expected that a draft statement on the distribution of housing provision in the Region will be issued by early 1989. Strategic Guidance for London, which will include guidance on the level of housing provision, is expected to be issued in Spring 1989, following public consultation. The average annual housebuilding rate for both public and private sector in Greater London over the last 5 years, 1983-87, was approximately 11,400 dwellings per annum excluding conversions.

CAMBRIDGESHIRE

6. The examination in public panel report recommended that the total housing provision be increased to 63,000.

DERBYSHIRE

7. Housing provision figure includes Alteration No 1 in respect of the South Sub Area. As the alteration runs from 1981 to 1996 compared with the original approved Plan 1976-1996, an adjustment has been made to take account of completions 1976-81: these are estimated at 1,500.

PEAK DISTRICT

8. Peak Park is excluded from the provision for Derbyshire and Staffordshire. Details are as follows:

Structure Plan period	1976-91
Housing Provision	820
Average Annual Housing provision	55

DURHAM

9. Plan provision is in net terms; it excludes provision for dwellings cleared in period 1983-1996.

CESHIRE

10. The plan does not quantify housing provision arising from infilling, conversion and small groups of dwellings for some of the policy sub-areas. A background report produced by the County in June 1983 estimated that about 4,500 dwellings could be provided in these areas.

GREATER MANCHESTER

11. Draft Strategic guidance is expected to be published in early 1989.

LANCASHIRE

12. This countywide plan is to replace the Central and North Lancashire Structure Plan and the North East Lancashire Structure Plan.

BUCKINGHAMSHIRE

13. The plan's housing provision excludes net gains from conversions and changes of use.

EAST SUSSEX

14. Plan provision is largely in net terms.

EAST SUSSEX -
WESTERN AREA

15. This plan covers the districts of Brighton, Hove and Lewes.

ESSEX

16. At the examination in public, the County Council proposed amending the total plan provision to 89,000.

SURREY

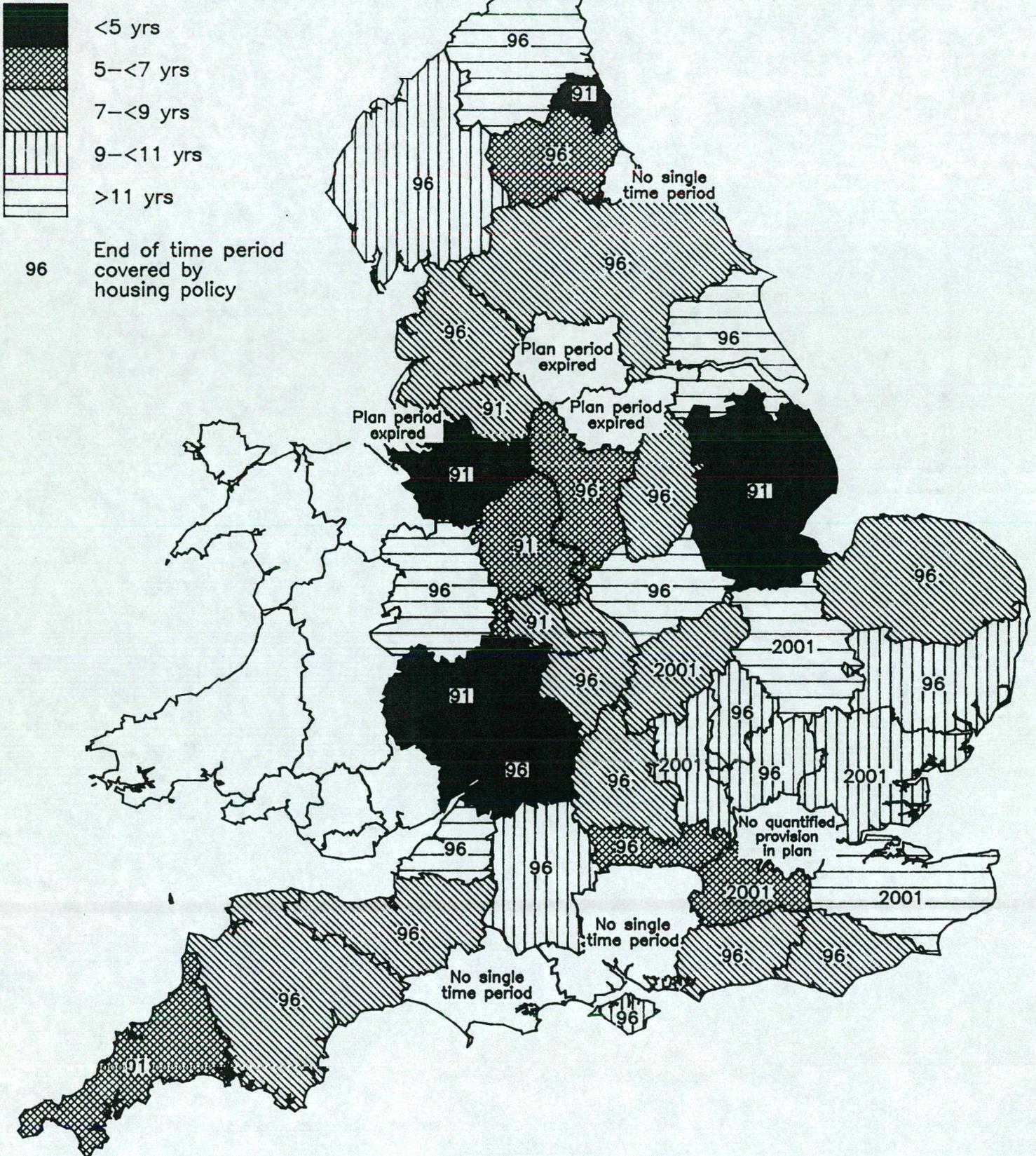
17. The County propose that "exceptionally, additional limited provision will be made" but this is not quantified in the plan.

WEST MIDLANDS

18. The Secretary of State published strategic guidance for the region on 24 February 1988 which identifies an overall requirement for 61,000 dwellings between April 1988 and March 2001.

REMAINING HOUSING PROVISION IN STRUCTURE PLANS IN ENGLAND AT MARCH 1988⁽¹⁾

Number of years provision at
average annual completion rate,
1983-87



Footnote

(1) Based on figures in table - Annex A Col 8.

STRUCTURE PLAN HOUSING PROVISION: COMPARISON BETWEEN
APPROVED PLANS AND ALTERATIONS (AT LATEST STAGE)

POSITION AT MARCH 1988

REGION/County	AVERAGE ANNUAL HOUSING PROVISION				% DIFFERENCE
	APPROVED PLAN	CONSULTATION DRAFT	SUBMITTED ALTERATIONS/REPLACEMENT	PUBLISHED PROPOSED MODIFICATIONS	
EAST ANGLIA					
Cambridgeshire	4283		3827		-11
Norfolk	4367			3800	-13
Suffolk	3291			3500	+ 6
EAST MIDLANDS					
Derbyshire ³	3245	3221			- 1
Leicestershire ² (inc. Rutland)	3810				-
Lincolnshire	2857	2981			+ 4
Northamptonshire	3160		2328		-26
Nottinghamshire	3725				-
NORTHERN					
Cleveland	3072	1890			-38
Durham	No quantified provision in plan		1308 ⁴		-
Northumberland	1300				-
Tyne and Wear	3385 ¹				-

POSITION AT MARCH 1988

REGION/County	AVERAGE ANNUAL HOUSING PROVISION				% DIFFERENCE
	APPROVED PLAN	CONSULTATION DRAFT	SUBMITTED ALTERATIONS/REPLACEMENT	PUBLISHED PROPOSED MODIFICATIONS	
NORTH WEST					
Cheshire	4916				-
Cumbria	1313		1573		+20
Lancashire	5300		3800		-28
Merseyside	expired ¹				
Greater Manchester	9460 ¹				
SOUTH EAST					
Bedfordshire	2583				-
Berkshire ²	4316			3625	-16
Buckinghamshire	4340				
East Sussex	2733				-
Essex	6362		5413		-15
Hampshire ^{2,5-}					
- South	5190			4079	-21
- Mid	1214		966		-20
- North East	1856		1561		-16
- South West	531				-
Hertfordshire	4207		4080		-3
Isle of Wright	- 6		545		-
Kent	5133			5280	+ 3
Oxfordshire	3347 ⁷			2713	-19
Surrey	3831			2473	-35
West Sussex	3285 ⁸			3158 ⁸	- 4

Average
-19

POSITION AT MARCH 1988

REGION/County	AVERAGE ANNUAL HOUSING PROVISION				% DIFFERENCE
	APPROVED PLAN	CONSULTATION DRAFT	SUBMITTED ALTERATIONS/REPLACEMENT	PUBLISHED PROPOSED MODIFICATIONS	
SOUTH WEST					
Avon	4290			3750	-13
Cornwall	2500	2630			+ 5
Devon	4560				-
Dorset ² (Excl. SE)	1190				-
Dorset ² (S.E. only)	1750		1970		+13
Gloucestershire	2100	2210			+ 5
Somerset	2450				-
Wiltshire ² - NE	1815		1720		- 5} Aver-
- S	395		490		+24} age
- W	1015		1285		+27} + 8
WEST MIDLANDS ¹					
Hereford and Worcs	3610	2853			-21
Shropshire	2420			2187	-10
Staffordshire ³	5196				-
Warwickshire	2067			1957	- 5
West Midlands	8560 ¹				-
YORKSHIRE AND ¹ HUMBERSIDE					
Humberside	3750				-
North Yorkshire	2800				-
South Yorkshire	expired ¹				-
West Yorkshire	expired ¹				-
- GREATER LONDON -	SEE FOOTNOTE 5 TO ANNEX A				

FOOTNOTES TO ANNEX B

METROPOLITAN COUNTIES

1. Abolished April 1986. Refer to footnote 4 to Annex A.

BERKSHIRE, DORSET, HAMPSHIRE,
LEICESTERSHIRE, WILTSHIRE

2. Those counties have more than one structure plan.

PEAK DISTRICT NATIONAL PARK

3. Peak Park is excluded from the provision for Derbyshire and Staffordshire (footnote 8 to Annex A refers).

DURHAM

4. Excludes provision for dwellings cleared in period 1983-1996.

HAMPSHIRE

5. The County Council have adopted a strategy for the whole county set out in a background document (April 1987). The strategy provides for 54,900-57,500 dwellings, 1991-2001, not including allowance for replacements, ie an average annual housing provision of 5,490-5,750.

ISLE OF WIGHT

6. The housing provision in the approved plan is in terms of acres not dwellings. An end date for the housing policies is not specified.

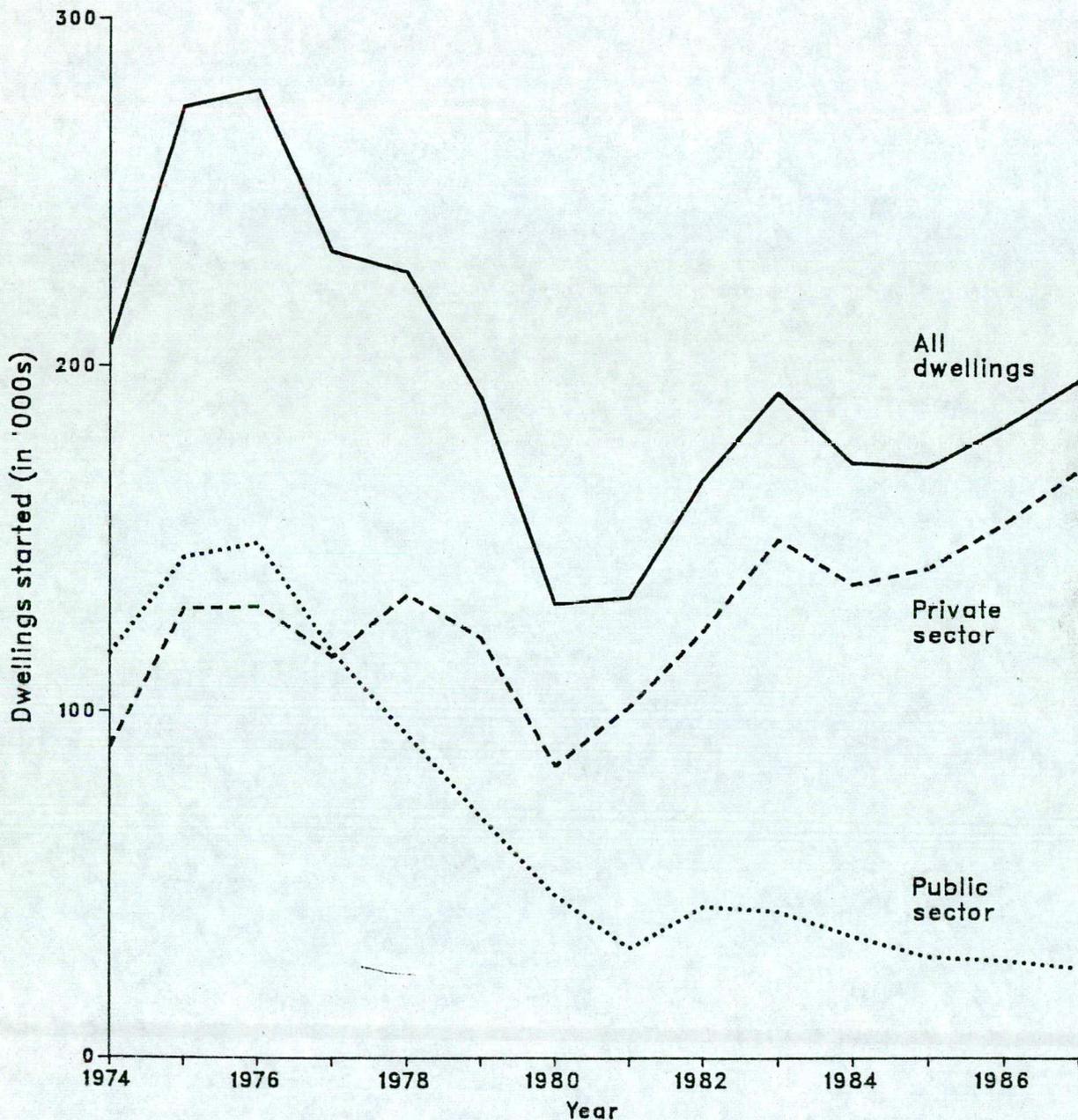
OXFORDSHIRE

7. Excludes unquantified limited additional provision.

WEST SUSSEX

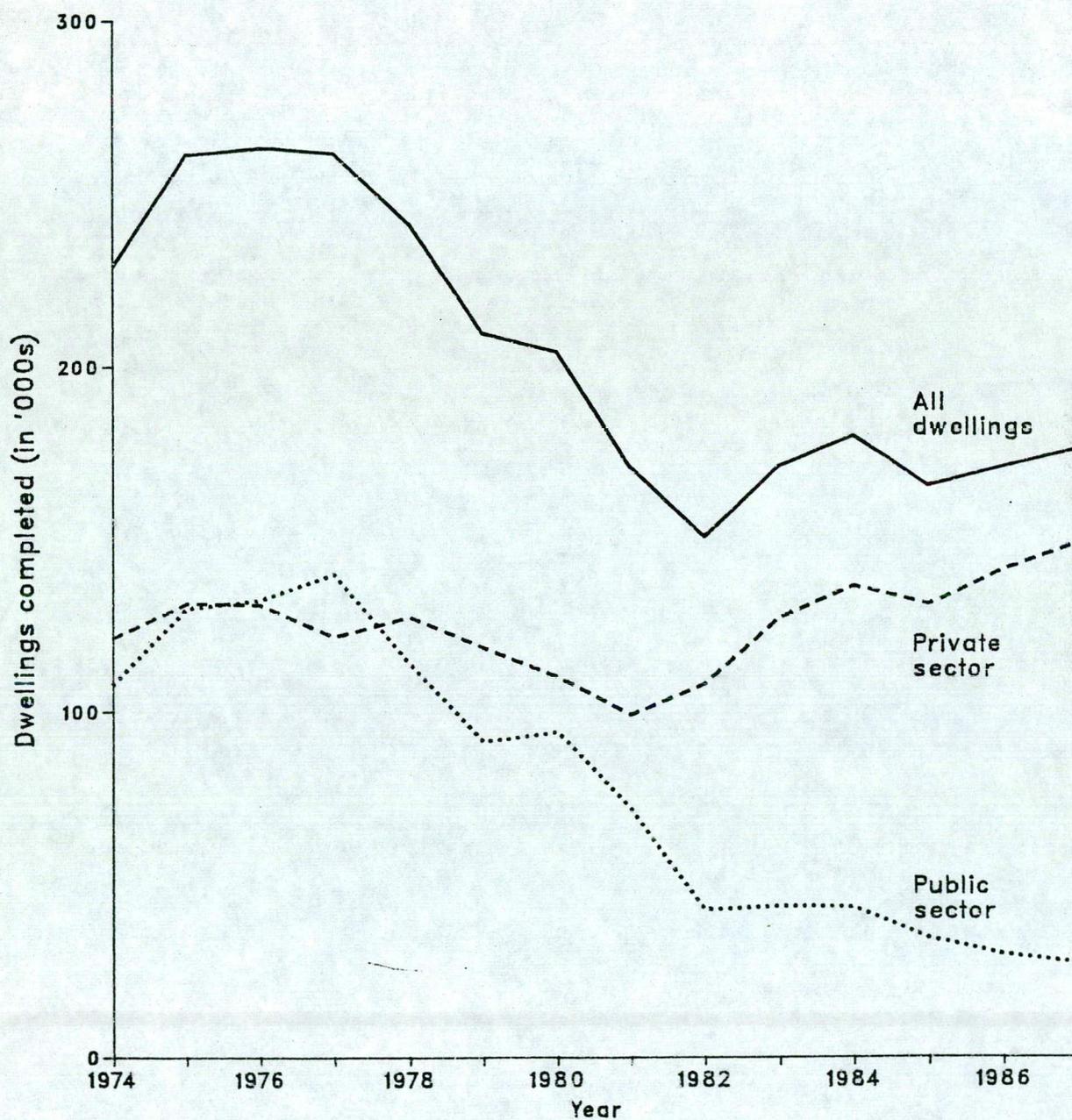
8. Excludes additional provision for locally generated demand, infilling, redevelopment, and conversions.

HOUSEBUILDING PERFORMANCE: PERMANENT DWELLINGS STARTED^① IN ENGLAND



NOTE 1: Excludes conversions

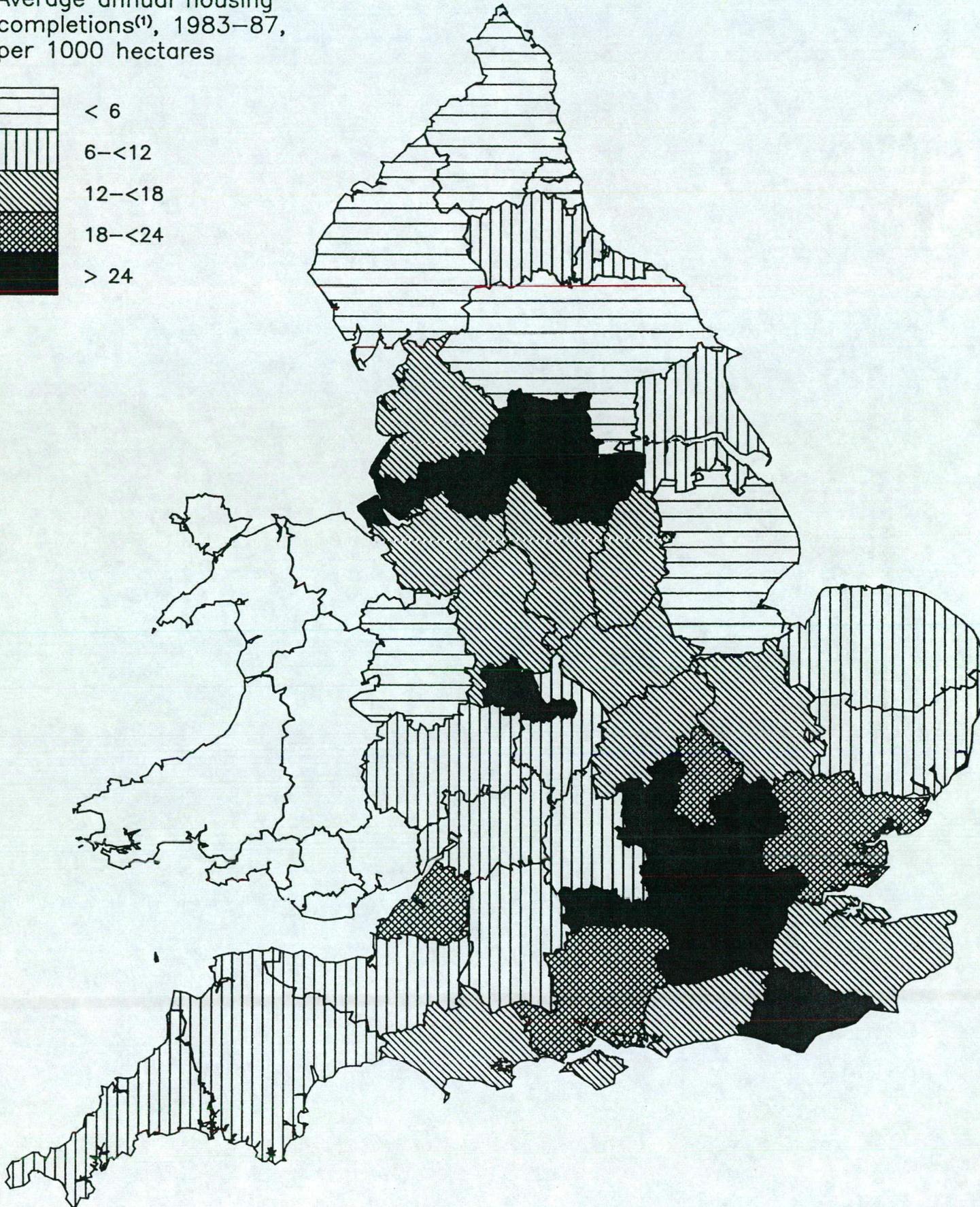
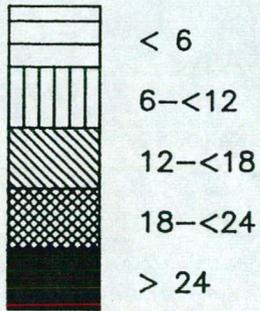
HOUSEBUILDING PERFORMANCE: PERMANENT DWELLINGS COMPLETED^① IN ENGLAND



NOTE 1 : Excludes conversions

● AVERAGE ANNUAL HOUSING COMPLETIONS⁽¹⁾, IN ENGLAND, 1983-87, PER 1000 HECTARES: BY COUNTY

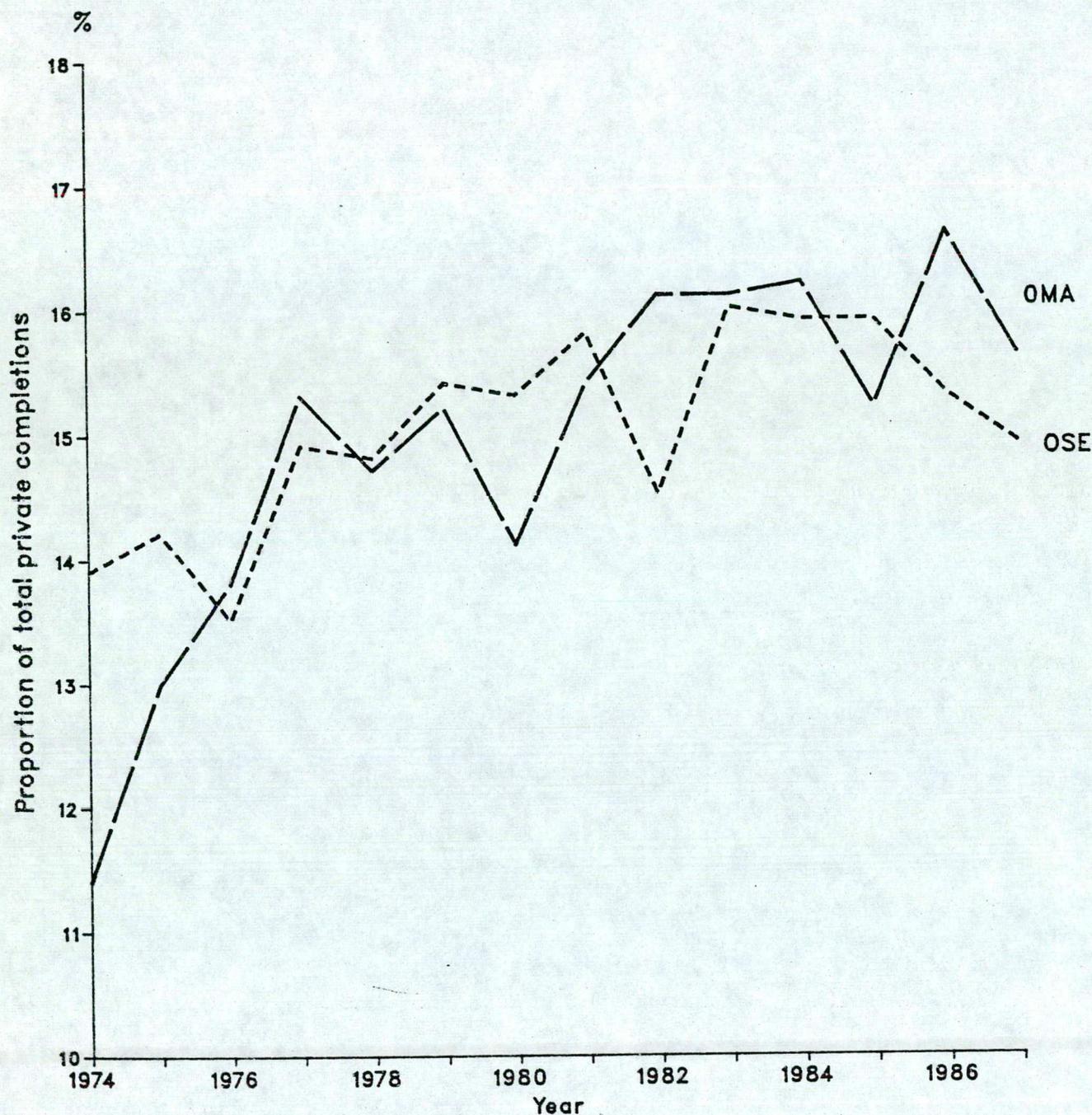
Average annual housing completions⁽¹⁾, 1983-87, per 1000 hectares



Footnote

(1) New housebuilding completions are reported to the Department by local authorities and the NHBC. They exclude conversions which may make some contribution to increases in total housing stock, particularly in London and former Metropolitan Counties.

PRIVATE DWELLINGS BUILT IN THE SOUTH EAST¹ AS A PROPORTION OF TOTAL PRIVATE COMPLETIONS² IN ENGLAND



NOTE 1: Excludes Greater London
2: Excludes conversions

Outer Metropolitan Area (OMA)

Outer South East (OSE)-----

Source: Housing and Construction Statistics, DOE

REGION/County	Base year of study	5 year supply in County as a whole	Shortage in one or more districts (or policy areas)	No of districts or areas with shortage
EAST ANGLIA				
Cambridgeshire	1983	Yes	No	-
Norwich area (1)	1984	n/a	See footnote	(1)
EAST MIDLANDS				
Derbyshire	1984	Yes	No	-
Leicestershire (2) (inc Rutland)	1983	Possibly	Yes	3 or 4
Nottinghamshire (3)	see footnote (3)			
NORTHERN				
Cleveland (4)	1983	Yes	No	-
Durham	1985	Yes	Yes	2
Northumberland	1985	Yes	Yes	1
Tyne and Wear	1986	Yes	Yes	1
NORTH WEST				
Greater Manchester (5)	1986	Possibly	See footnote	(5)
SOUTH EAST				
Bedfordshire (6)	1984	No	Yes	2
Berkshire (7)	1984	Possibly	Possibly	1
Buckinghamshire (8)	1983	No	Yes	2
Essex	1984	Yes	Yes	4
Hertfordshire	1985	Yes	Yes	2

REGION/County	Base year of study	5 year supply in County as a whole	Shortage in one or more districts (or policy areas)	No of districts or areas with shortage
Surrey ⁽¹⁰⁾	1986	No	Possibly	1
West Sussex	1986	No	Yes	1
Kent ⁽⁹⁾	1987	Yes	Yes	3
SOUTH WEST REGION				
Devon ⁽¹¹⁾	1986	Yes	Not known	Not known
WEST MIDLANDS				
Shropshire ⁽¹²⁾	1984	Yes	Possibly	Possibly 1
Warwickshire	1986	Yes	Yes	2
West Midlands	1986	Yes	Yes	2
YORKSHIRE AND HUMBERSIDE				
Humberside:				
- Boothferry	1987	Yes	No	-
-East Yorkshire	1987	Yes	No	-
-Scunthorpe/Glanford	1987	Yes	No	
North Yorkshire:				
-Harrogate ⁽¹³⁾	1986	Yes	see footnote	(13)
-Scarborough ⁽¹⁴⁾	1985	Yes	see footnote	(14)

JOINT HOUSING LAND AVAILABILITY STUDIES : FOOTNOTES TO ANNEX E (i)

- (1) NORWICH AREA: There is a shortfall in Norwich area.
- (2) LEICESTERSHIRE: The study is now out of date and based on a superseded structure plan.
- (3) NOTTINGHAMSHIRE: No joint studies apart from one for Nottingham City (1984). In 1984 5 districts and the HBF were co-operating in a study but no conclusion was reached.
- (4) CLEVELAND: An updated report, base date 1986 is expected shortly.
- (5) GREATER MANCHESTER: Generally, the districts considered that a 5 year supply exists, but the HBF estimate that there are shortfalls in some areas.
- (6) BEDFORDSHIRE: The study identified a shortfall of available land at county level. There is some disagreement between the HBF and the County Council since the study excludes a large site which may make up the deficit, if included.
- (7) BERKSHIRE: The HBF identified a shortfall in central Berkshire and over the county as a whole, whereas the County Council estimated that a 5 year supply does exist.
- (8) BUCKINGHAMSHIRE: The study identified a shortfall at county level, and in 2 districts. This was derived by comparing the estimates of available land with the highest range of provision in the approved structure plan.
- (9) KENT: The shortfall in two of the districts arises from part underperformance of building rates compared to the building rate implied by the Structure Plan provision.
- (10) SURREY: The HBF identified a shortfall in Working wheras the Borough Council estimate that a 5 year supply does exist.
- (11) DEVON: The joint study in Devon is not yet formally concluded. It covers towns named in the Structure Plan.
- (12) SHROPSHIRE: The HBF identified a shortfall in Bridgworth whereas the County Council estimate that a 5 year supply does exist. An updated report is in progress.
- (13) HARROGATE: Study completed in 1987. Shortfall of 316 units over the five year plan period, 1986-1991.
- (14) SCARBOROUGH: Study completed 1985. Disagreement surrounded the inclusion of conversions in the study. If conversions are excluded there is a shortfall in the District.

REGION/County	Base year	5 year supply in area as a whole	Details of Shortage
EAST MIDLANDS			
Derbyshire (1)	1987	Yes	Minor shortage in one district
Leicestershire (2)	1987	Yes	Shortage in one district
NORTH WEST			
Greater Manchester	1987	Yes	Not known
Lancashire (3)	1987	No	
SOUTH EAST			
Bedfordshire	1986	Yes	Shortfalls in North and Mid Beds
Buckinghamshire	1987	Yes	Small shortfall in Milton Keynes
East Sussex	1987	Yes	None
Essex	1987	Yes	Shortfall in Harlow
Hampshire	1986	Yes	Some local shortfalls
Kent	1985	No	3 districts with shortage
West Sussex	1987	Yes	2 districts with shortage
SOUTH WEST			
Avon	1988	Yes	Not known
Dorset	1987	Yes	Cranborne sub-area
Gloucestershire	1987	Yes	None
Somerset	1986	Yes	None

ANNEX E(ii) (Cont'd)

REGION/County	Base year	5 year supply in area as a whole	Details of Shortage
WEST MIDLANDS			
Hereford and Worcester	1987	Yes	Shortages in parts of districts
Staffordshire	1987	Yes	Shortage in South Staffs on a building rate basis
Warwickshire	1987	Yes	Shortage in South Warwicks (Warwick and Stafford district on a building rate basis)
Shropshire (4)	see foot- notes		

NON-JOINT HOUSING LAND AVAILABILITY STUDIES : FOOTNOTES TO ANNEX E(ii)

- (1) DERBYSHIRE: Analysis of sites with 9+ houses in Derby, and 4+ elsewhere.
- (2) LEICESTERSHIRE: Land releases in the district with a shortage, since base, go a long way towards rectifying situation.
- (3) LANCASHIRE: Chorley, Lancaster, Ribble Valley and South Ribble are the only districts with insufficient land identified to accommodate dwellings requirements to 1996. When account is taken of future windfall sites only South Ribble will be unable to meet the requirement without the need for further major allocations.
- (4) SHROPSHIRE: No identifiable study although work undertaken for West Midlands Regional Forum report (Base Year 1986) shows a 5 year supply in the county.

JOINT HOUSING LAND AVAILABILITY STUDIES IN PROGRESS

REGION/County	Base year of Study
EAST MIDLANDS	
Northamptonshire	1988
NORTHERN	
Cleveland	1986
Durham	1987
Tyne & Wear	1987
SOUTH EAST	
East Sussex	1988
Oxfordshire	1988
Surrey	1988
West Sussex	1988
YORKS & HUMBERSIDE	
Humberside - Hull (update in progress)	
Grimsby/Cleethorpes (update in progress)	
North Yorkshire - Hambleton	
Richmondshire	
York	
WEST MIDLANDS	1988
(Separate reports for 7 districts-Dudley, Walsall Wolverhampton, Birmingham, Coventry, Sandwell & Solihull).	
Shropshire	1987

CHART 1

INDEX OF WEIGHTED AVERAGE PRICES PER PLOT OR PER HECTARE —
FOR PRIVATE SECTOR HOUSING LAND (RECENT YEARS)
ENGLAND AND WALES

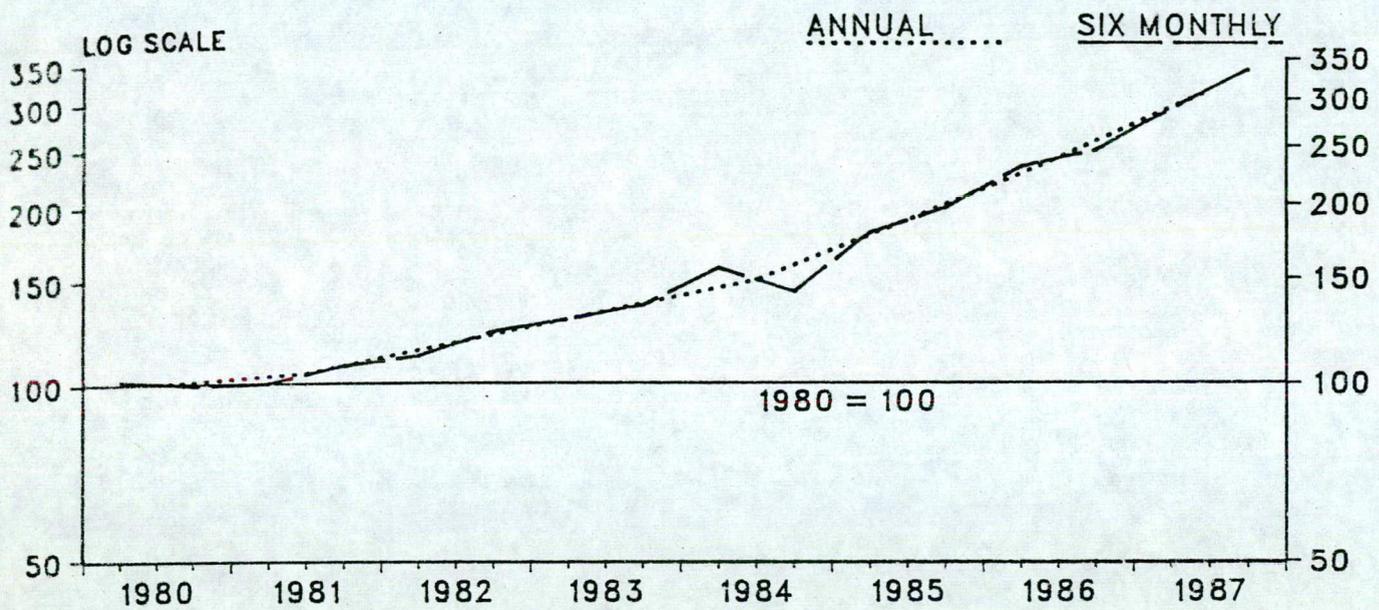


CHART 2

WEIGHTED AVERAGE PRICES PER PLOT
FOR PRIVATE SECTOR HOUSING LAND
1970-1980: ANNUAL; 1981-1987: HALF-YEARLY

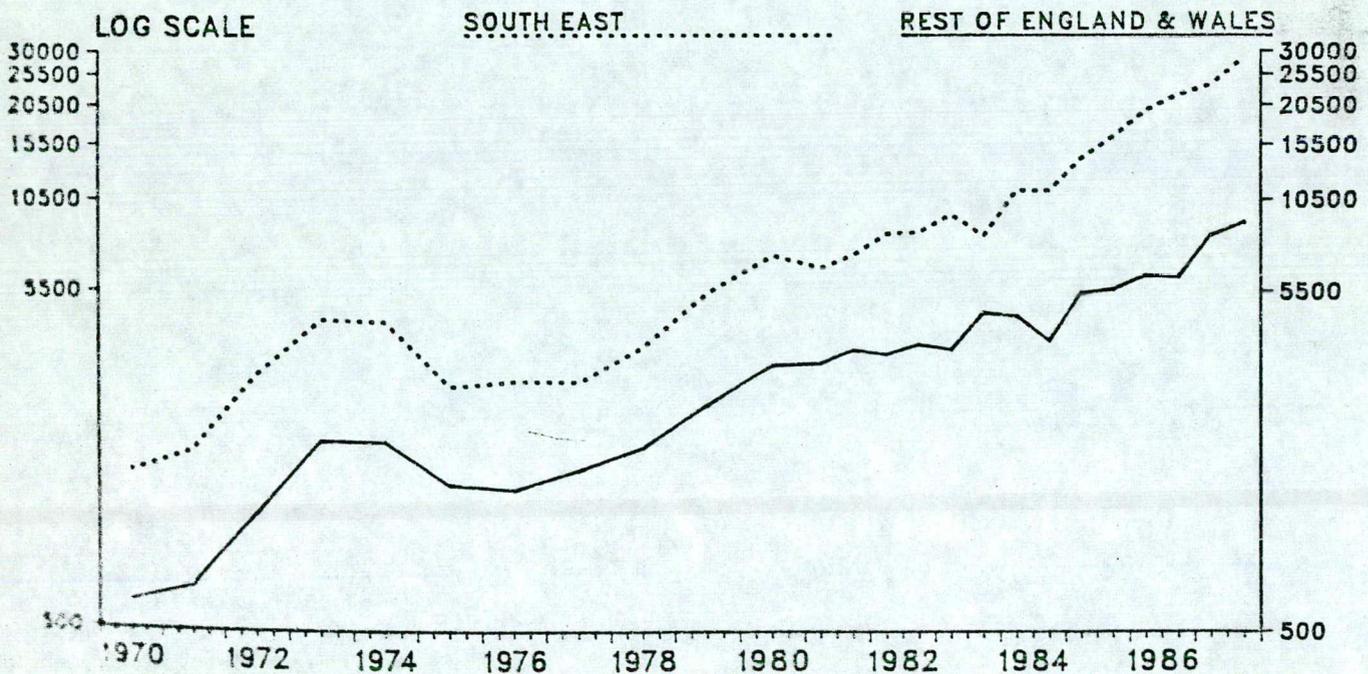


CHART 3

INDEX OF WEIGHTED AVERAGE PRICES PER PLOT/HECTARE DEFLATED
BY THE RETAIL PRICE INDEX. 1970-1980: ANNUAL; 1981-1987: HALF-YEARLY

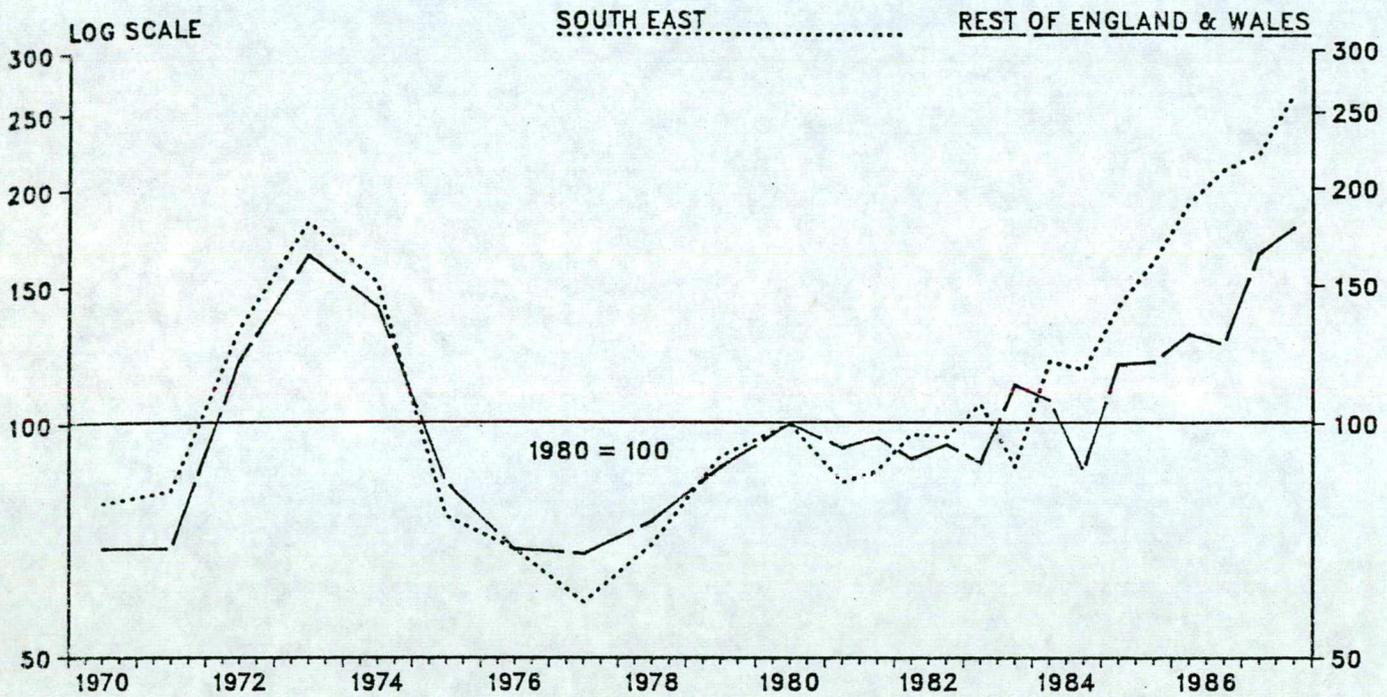


CHART 4

RATIO OF WEIGHTED AVERAGE PRICE PER PLOT TO MIX ADJUSTED
PRICE FOR NEW HOUSES. 1970-1980: ANNUAL; 1981-1987: HALF-YEARLY

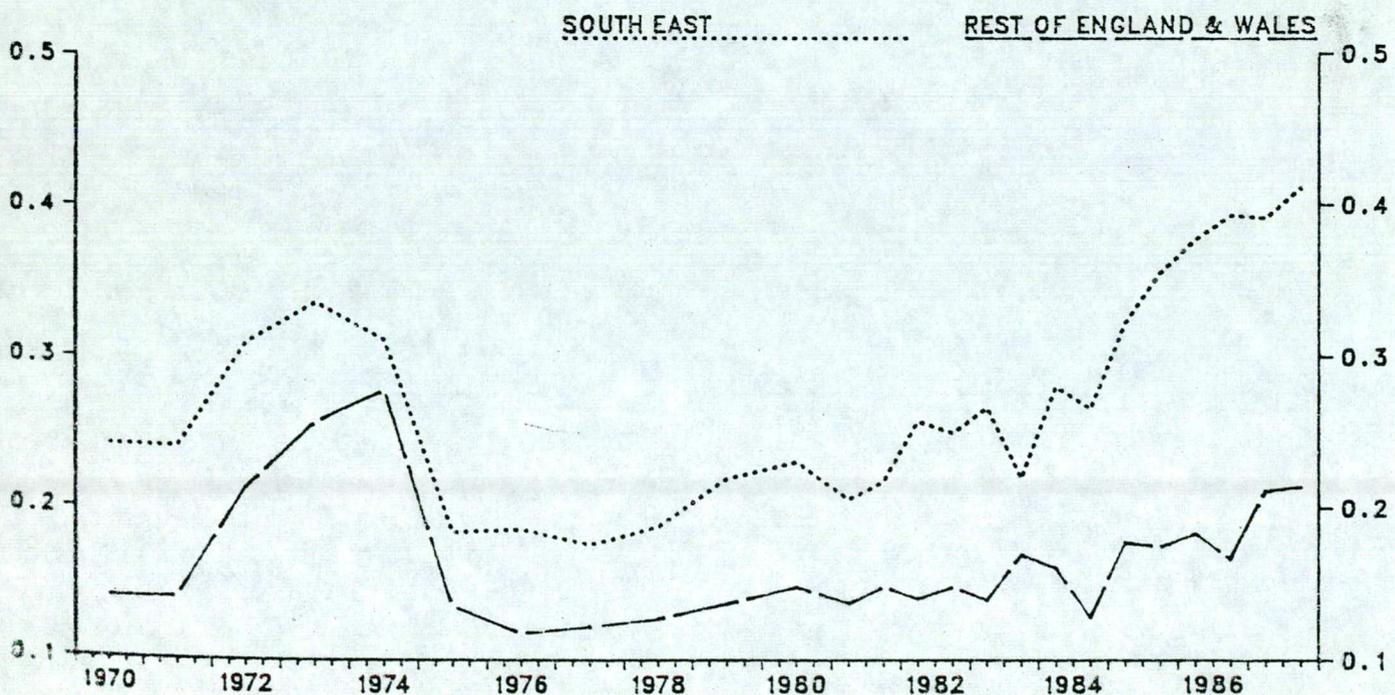


CHART 5

WEIGHTED AVERAGE PRICE PER PLOT FOR PRIVATE SECTOR HOUSING LAND 1987

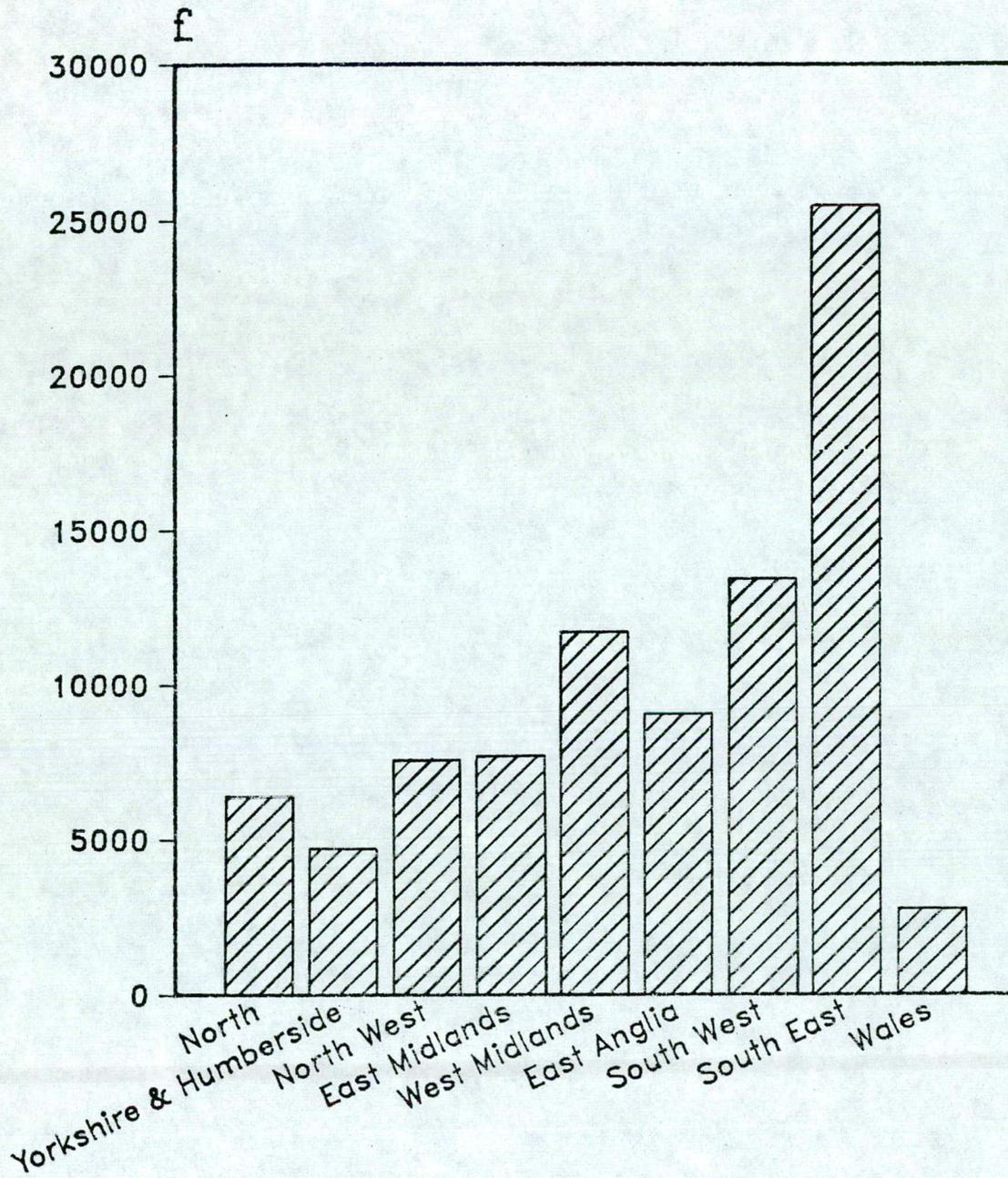


TABLE 1

PRIVATE SECTOR HOUSING LAND
PRICE INDICES AT CONSTANT DENSITY 1980-1987
AND AVERAGE PRICE 1987*

Region	Price Indices 1980 = 100							Simple average price 1987*	
	1981	1982	1983	1984	1985	1986	1987	£ per plot	£ per hectare
Northern	134	104	94	94	122	183	209	8,100	150,000
Yorks and Humberside	96	115	153	116	166	188	190	4,700	118,000
East Midlands	98	122	119	125	138	192	268	7,800	171,000
East Anglia	88	79	72	84	163	151	238	8,700	201,000
Greater London	82	121	117	153	176	274	426	32,100	1,888,000
Outer Metropolitan Area	121	140	142	168	239	332	354	25,700	553,000
Outer South East	89	96	104	164	187	247	341	21,300	517,000
South East (incl Greater London)	104	122	125	164	211	294	360	25,500	692,000
South West	106	117	130	173	192	225	313	14,000	228,000
West Midlands	96	84	111	158	177	186	305	12,800	258,000
North West	117	112	201#	126	148	131	242	7,200	186,000
Wales	95	105	138	121	179	194	154	4,500	73,000
England and Wales (excl South East)	104	112	139	134	165	185	260	8,600	186,000

Notes: * transactions reported during each year and included in price index calculations

Excluding one very large and expensive site, the index value is 125.

General: Data on sales of land intended to be used for housing are supplied by Inland Revenue District Valuers. Details of the transactions are taken from stamp duty records and supplemented by other information.

The housing land price index is based on transactions covering sites of 4 or more plots. Transactions are generally restricted to private sector purchases of sites with planning permission for a known number of plots. The index is weighted to reflect land with constant average size of plot.

CONFIDENTIAL

FROM : A J C EDWARDS
23 January 1989

CHIEF SECRETARY

cc **Chancellor**
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Lomax
Miss Peirson
Mr MacAuslan
Mr McIntyre
Mr Wood
Mrs Holmans
Mr Betenson
Mrs Chaplin
Mr Call

Ch/ Good briefing.

Handwritten notes:
+ has Phillips (MP was) (checked with CSI) 015

Handwritten note:
[I am confident we can tell that we have spoken with...]

FLEXI-OWNERSHIP**PRIME MINISTER'S MEETING ON 25 JANUARY**

As you will recall, the Prime Minister intended to hold a meeting before Christmas to discuss the further note by officials on flexi-ownership circulated by Mr Wilson (Cabinet Office) on 2 December. She decided, however, to postpone it after a discussion with the Chancellor in which the Chancellor drew her attention to the perils of flexi-ownership, not least for public expenditure and the right to buy programme. The reconvened meeting is due to take place on Wednesday afternoon, and Mr Wilson has circulated a supplementary note, dated 20 January, providing some useful arithmetical examples of the flexi-ownership schemes discussed in the paper.

Objectives

2. We suggest your objectives should be:
 - i. to register as necessary that flexi-ownership schemes on the lines discussed in the paper, imaginative as they are, would carry serious implications for public expenditure, the right to buy scheme, homelessness and social security;
 - ii. to remind colleagues how well the RTB scheme is now doing;
 - iii. to seek agreement that the time to introduce schemes along flexi-ownership lines is not now but when the right to buy scheme runs out of steam;

- iv. to argue that the first step to consider, if and when further action is needed, should be an improvement in the terms of the RTB scheme designed to persuade the remaining 1.1 million of potential RTB tenants to buy their houses or flats (as Mr Ridley envisages): you should support a request to officials for further work on this; and
- v. to resist strongly any decisions to proceed now with flexi-ownership schemes, either GB-wide or in Scotland and Wales. The least objectionable scheme in the paper is option II without a special scheme for the elderly; but even this would be grossly premature.

Schemes in Cabinet Office paper

3. As explained in the paper, the basic idea is that tenants in local authority housing would be eligible after two years of occupancy to receive a substantial share in the equity of their houses or flats, related to the right to buy discount, without having to buy them outright. They would stop paying rent and take out instead, in most cases, a mortgage with monthly servicing payments equal to not less than their rents less £5 per week for maintenance (for which they would be responsible). They would then receive extra equity each year of 1 per cent of the value of houses (2 per cent for flats) up to the existing RTB limits of 60 per cent (houses) and 70 per cent (flats). Flexi-owners would be legal owners of their houses and flats and would leave them to their heirs but the public sector would retain a charge on their properties corresponding to the rest of the equity.

4. The paper discusses several variants on this approach. In descending order of generosity these are:

- Option I, with special scheme for elderly. On this scheme, the initial discount (that is free equity) would be extremely generous (the RTB discount less 10 percentage points) and would be related to the value of the house. Example: the free equity would be £20,000 on a house worth £50,000 with a 50 per cent RTB discount. The elderly would be eligible to receive this free equity and would be absolved from paying any further rent, without having to provide any money or take out a mortgage.

- Option I, without special scheme for elderly. This is self-explanatory.
- Option II. On this scheme, the initial discount (free equity) would be a proportion of the right to buy discount equal to the proportion of the money put up by the flexi-owner to the value of the property. It would thus be a function of the amount of mortgage (or payment) by the flexi-owner as against the price of the house in option I (see algebra below). Example: with a mortgage of £24,000 and a right to buy discount of 50 per cent, the free equity would be £12,000.
- Scottish and Welsh experimental schemes. Both the Scottish Office and the Welsh Office wish to introduce "experimental" schemes if there is no agreement on early introduction of such schemes throughout Great Britain.

5. You may find the language of algebra more convenient. If so, the initial discount or free equity (FE) can be expressed as follows:

$$\text{Option I} \quad \text{FE} = (d-0.1) P$$

$$\text{Option II} \quad \text{FE} = P \left\{ \frac{M}{(1-d) P} \right\} - M = \frac{d}{(1-d)} M$$

where d is the RTB discount, P is the price or value of the property and M is the size of the mortgage or other payment which the flexi-owner makes. Notice that, whereas under Option I the free equity is a function of the value of the property (P), under Option II the property value term drops out, leaving the free equity as a function of the size of the mortgage or other payment and the RTB discount.

Schemes not considered in Cabinet Office paper

6. The Prime Minister's 21 July meeting did not commission any work on the further options of an RTB booster package or doing nothing for now. Mr Wilson's paper does not, therefore, mention these. We have discussed the possibility of an RTB booster package with DOE but not with other Departments.

General assessment

7. In the LG view, the flexi-ownership proposals in the paper are grossly premature. Flexi-ownership is an idea before its time. Introducing it now would have the following disadvantages:

- i. Spoiling of RTB. It would "spoil" the RTB scheme, which has been going extremely well in recent months (flats as well as houses). It would quite possibly deflect the 1.1 million tenants in England still in local authority housing who could afford to buy their properties under the RTB scheme, thus depriving the Government of several billion pounds of receipts over the next few years. The reduction in RTB receipts could be £1½ billion a year in the early years if an elderly scheme were included. About half of the loss could be made up by new flexi-ownership receipts; but the net loss could still total some £5 billion by 1996-97.

The "spoiling" effect would be likely to apply in large measure to schemes confined to Scotland and Wales also: tenants in England would be likely to calculate that it was only a matter of time before the flexi-ownership scheme would be extended to England and they would then be able to obtain an even more favourable financial deal.

- ii. Pressures to build new subsidised housing. Since flexi-owners and their heirs would be legal owners of their properties, these properties would in effect be removed from the supply of public subsidised housing. There would however be no parallel reduction in the demand for such housing. The nation's housing stock would, in effect, be less efficiently occupied. Hence flexi-ownership would tend to increase the imbalance between the supply and demand for subsidised housing and exacerbate the problems of homelessness, thus leading to pressures to build large new public estates of subsidised housing.

- iii. Unprecedented handouts to wrong people. The element of "free gift" involved in these schemes would make this perhaps the biggest handout of public assets ever seen.

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The main beneficiaries, moreover, especially if the special scheme for the elderly were included, would often be, not the tenants themselves, but their heirs. Against the controversy of housing benefit cuts, affecting those just above income support levels (many of them elderly), this might seem an ill-targetted piece of largesse to those unable to take advantage of it - notably elderly private sector tenants.

- iv. Social security implications. As explained at the end of the paper, there is a serious risk that the Government would find itself paying many flexi-owners' mortgage interest payments through the income support system. In any case, it is not clear that the Government should provide still more generous incentives to buy through flexi-ownership and help with mortgage interest payments through income support. Would this reduce the dependency culture? Mr Moore may well support option I with the special scheme for the elderly - in order to reduce the number of his clients. If so, you may need to deploy the argument at iii. above. And, in general, you will want to argue that there remain difficult social security aspects ^{which} still need to be weighed carefully.
- v. Public expenditure effects. Because of i. and ii. above in particular, the public expenditure effects of early introduction of flexi-ownership could be enormously adverse from the Treasury's point of view. The size of these effects is inevitably uncertain. There are major questions about the terms of the scheme, response rates, degrees of spoiling of RTB and the extent of the need to build new subsidised housing. The calculations at annex B to the paper give projections based on varying assumptions. The most plausible results in each case are cases B v. and ~~iv.~~ ^{vi.}, which assume that tenants would be much influenced by their immediate outgoings and that the shortfall of subsidised housing will have to be covered over time in one way or another. On these scenarios, the calculations indicate massive public expenditure costs, above all in the early years: from

around £700 million to over £1 billion in the first year, depending on the option considered, with smaller but still massive figures in the following years.

8. The combination of adverse effects on public expenditure, surges in the unsatisfied demand for subsidised housing (reflected in increased homelessness) and bad distributional effects is clearly formidable. To a considerable extent these problems arise because the time is not ripe for a scheme on the lines proposed. The public expenditure effects would be greatly improved by introducing such a scheme later, when the existing 1.1 million or so tenants in England with RTB potential have been persuaded to buy. The adverse effects on the supply of subsidised housing and homelessness would be much easier to handle if transfers of existing subsidised housing continue at a steady pace, as against the massive booster which the flexi-giveaway would provide.

9. Of the various proposals discussed in the paper, option I with the special scheme for the elderly is clearly worst of all. No elderly tenants in their right mind could possibly reject a scheme which gives them assets for nothing and absolves ^{them} from further rent payments. Although expenditure by DSS on rent rebate subsidies would be reduced, inclusion of the special scheme for the elderly would be particularly catastrophic in relation to the problem of the supply of subsidised housing and homelessness: it is from this category that the greater part of the supply of new lettings comes. Option I without the special scheme for the elderly would be the second worst from the Treasury's point of view. Option II would be significantly less bad but still open to most of the objections discussed above. Pilot schemes in Scotland and Wales would tend to spoil the RTB scheme in England since many English tenants would doubtless think it best to wait until flexi-ownership, with its more generous terms, was extended to England.

10. The paradox is that, in the period while Ministers have been considering flexi-ownership schemes, right to buy sales have burgeoned to their highest ever levels (see table 1 on the next page, which includes figures for Scotland and Wales as well as England). Sales of flats have picked up remarkably as well as houses. The expected fall-off in applications for RTB has simply not occurred, even with the recent increases in interest rates. Tenants in flats may be responding in part to the improved terms

SALES OF LA DWELLINGS TO SITTING TENANTS

ENGLAND

ANNEX

	Sales (,000)		Receipts
	Houses	Flats	(£million)
1982-83	162.6	4.6	1,117
1983-84	100.8	5.5	921
1984-85	73.3	4.2	794
1985-86	68.1	4.1	843
1986-87	70.2	6.5	1,112
1987-88	83.3	11.5	1,549
1988-89	150		2,555
1989-90	145		2,915
1990-91	115		2,525
1991-92	101		2,440

Table 1RTB Scheme:

results to date and

PES projections

SCOTLAND (SO cannot provide a flat/house breakdown)

	Sales (,000)		Receipts
	Houses	Flats	(£million)
1982-83	11.8		102
1983-84	13.0		123
1984-85	11.7		119
1985-86	10.4		106
1986-87	10.9		120
1987-88	16.7		169
1988-89	25.0		219
1989-90	27.9		296
1990-91	22.5		245
1991-92	19.7		220

WALES

	Sales (,000)		Receipts
	Houses	Flats	(£million)
1982-83	11.7	0.2	42
1983-84	14.2	0.2	55
1984-85	7.3	0.1	37
1985-86	5.2	0.1	28
1986-87	4.9	0.1	31
1987-88	5.6	0.2	49
1988-89	6.2		54
1989-90	8.0		80
1990-91	10.0		117
1991-92	10.0		117

Figures show total sales by local authorities to sitting tenants and include voluntary as well as RTB sales. The voluntary proportion is however negligible in comparison with RTB sales.

DOE Estimate the present number of tenants eligible, and able to afford, the Right to Buy to be some 1.1 million. This comprises 730,000 in houses and 370,000 in flats.

for flats announced at the beginning of 1987. Tenants generally are probably being influenced by fears about future rent rises and perceptions at a time when property prices have risen fast that property ownership is likely to be in their interests. There is also, as in all such schemes, a dissemination time lag. If RTB sales continue at roughly the rate of recent months (say the level of 145,000 assumed for 1989-90 in the Survey), about two-thirds of the remaining 1.1 million potential RTB tenants in England should ~~mostly~~ have bought their properties within 5 years.

RTB booster package

11. As implied above, there must be an overwhelming case for persuading the 1.1 million tenants who could afford to become owner-occupiers under the RTB scheme to do so before proceeding to flexi-ownership-style schemes for giving partial owner-occupancy to tenants who cannot afford to be owner-occupiers. If therefore Ministers felt that something had to be done quickly, it would be far more sensible to target the 1.1 million potential RTB tenants in England and aim at a faster transfer of these to the private sector.

12. DOE are strongly of this view but feel diffident, given the past history, about attacking the flexi-ownership proposals too brutally. You and Mr Ridley have both made clear that you would like if possible to join forces on this issue.

13. In consultation with us, therefore (but not other Departments), DOE officials have worked up a package which they think could bring in the great majority of the potential RTB tenants still remaining as tenants by 1992. The main features of DOE's provisional proposals, along with the corresponding features of the present scheme and a variant on the DOE proposals which we would think more reasonable, are given in the accompanying table.

	<u>Present Scheme</u>	<u>DOE scheme</u>	<u>Treasury variant</u>
<u>Houses</u>			
Initial discount % (after two years of occupancy)	32	40	36
Increase in discount per year of occupancy (percentage points)	1	2	1
Maximum discount (whichever is lower)			
per cent	60	60	60
amount	£35,000	£50,000	£50,000
<u>Flats</u>			
Initial discount % (after two years of occupancy)	44	50	50
Increase in discount per year of occupancy (percentage points)	2	2	2
Maximum discount (whichever is lower)			
per cent	70	70	70
amount	£35,000	£50,000	£50,000

14. On flats, where the terms were made more attractive as recently as the beginning of 1987, and the response has recently been good, DOE officials and ourselves are agreed that the only further changes worth making are

- i. to increase the maximum cash discount from £35,000 to £50,000 (this is particularly helpful in London) and
- ii. to raise the initial discount from 44 per cent to 50 per cent.

15. On houses, which account for 740,000 households within the 1.1 million RTB potential total, we are agreed that the broad approach within any booster package should be to raise the maximum cash discount from £35,000 to £50,000 and likewise the initial percentage discount. In our view, however, it would be going too far to raise the initial discount from 32 per cent to 40 per cent (involving a large "deadweight" loss of receipts of about £4,000

per house sold). It would also be a great mistake, in our view, to increase the annual increments of equity from 1 percentage point to 2 percentage points. This could easily have a perverse effect on the rate of sales, by encouraging tenants to wait before exercising their right to buy instead of going straight ahead.

16. The public expenditure effects of a RTB booster scheme could go either way in the short term. But such a scheme would certainly be much less damaging than flexi-ownership.

17. To sum up, therefore, we have been able to reach agreement at official level on what kind of thing should be done if something had to be done quickly; but we differ from DOE in

- a. believing that the best course of all is to do nothing for the moment;
- b. preferring to stick with 1 percentage point annual increments not 2 percentage points for houses; and
- c. favouring an initial discount of 36 per cent, as against the existing 32 per cent, rather than 40 per cent, in any booster scheme.

DOE acknowledge that our "steady as she goes" approach is reasonable in itself but think that Mr Ridley will not be able to head off the demands for flexi-ownership schemes unless he can provide a resounding package on RTB as an alternative.

18. For reasons implied earlier, I do not think that these differences between DOE and ourselves matter too much so far as the Prime Minister's meeting this week is concerned. Mr Ridley will not wish at that meeting to unfold a detailed right to buy booster package. He will want rather to say that a highly attractive package on these lines could be quickly worked up and would be much preferable as a next step.

19. We also take the view that more effective publicity is likely to be important for the rate of RTB sales. DOE say, with some justice, that they can most effectively increase the publicity they provide through eye-catching improvements in the terms of RTB along the lines they are advocating.

20. As noted earlier, neither DOE nor we have so far shared our thoughts on a possible RTB booster package with other Departments. The remit from the Prime Minister's July meeting was to work up variants of flexi-ownership schemes, not to consider RTB boosters.

Mr Ridley's strategy for meeting

21. Mr Ridley's chief concern will be to avoid agreement being reached on flexi-ownership schemes. He believes that it is only by dangling the prospect of a generous RTB booster scheme that he will be able to defeat the flexi-ownership battalions. What he would like to do at the meeting is to commend at this stage the alternative approach of targeting the 1.1 million potential RTB tenants in England through an attractive RTB booster scheme before going for flexi-ownership-style schemes. He would like to seek a remit from the meeting to work up an RTB booster scheme. As you know, he is sensitive to past suggestions that his reasons for opposing Mr Walker's and Mr Rifkind's ideas are simply that he did not have the ideas himself. He is therefore hoping that you will take as prominent a role as possible in putting the case for an RTB booster package at this stage as against flexi-ownership.

Attitudes of others

22. Mr Walker (in particular) and Mr Rifkind both have a certain pride of authorship in the flexi-ownership and rent to mortgage schemes and will be anxious to come away from the meeting with agreement in principle to introduce such schemes soon - if not throughout GB then at least experimental schemes in their own countries. Mr Moore may well go along with flexi-ownership proposals on the grounds that they would cut his housing benefit bill.

23. The Prime Minister gave a favourable wind to these proposals at earlier meetings but was clearly impressed by the Chancellor's arguments before Christmas for taking more time to think through all their implications, not least for public expenditure, the RTB scheme and the implications for the supply of new subsidised housing.

Your own strategy

24. Against this background, we suggest that your strategy for the meeting should be, while supporting Mr Ridley's broad approach as being much preferable to rushing now into flexi-ownership, to underline the case for postponing any booster package for the time being. This would have the advantage of making Mr Ridley's suggestion of a booster package seem like the moderate middle course. Particular points to underline will be:

- a. how well the existing RTB scheme is going;
- b. the virtues of a "steady as she goes" approach, both from the public expenditure point of view and in relation to homelessness and unsatisfied demand for subsidised housing;
- c. that said, to support Mr Ridley in the view that the best candidate for early action (not, in your view, immediate action) would be to improve the RTB terms so as to hasten the process of persuading the 1.1 million potential RTB tenants to buy their properties;
- d. to argue powerfully if necessary against agreement of any of the flexi-ownership schemes set out in the Cabinet Office paper, including the experimental schemes for Scotland and Wales; and
- e. if this should fail, to argue strongly for limiting any flexi-ownership to option II, rather than the more generous option I variants or the Scottish and Welsh experimental schemes.

You will however wish to do all you can to avoid having to fall back on e. above.

Speaking notes

25. Mr Betenson is working on some notes for use in discussion. If you agree, he will finalise these tomorrow evening, after your briefing meeting.

AJCE

A J C EDWARDS

FROM: RUTH KOSMIN
DATE: 24 JANUARY 1989

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Hibberd
Mr O'Donnell
Mr Grice

HOUSE PRICES: RICS SURVEY

You requested regular updates of the charts attached to my minute of 22 December 1988 which present the results from the monthly questionnaire of the housing market undertaken by the Royal Institution of Chartered Surveyors.

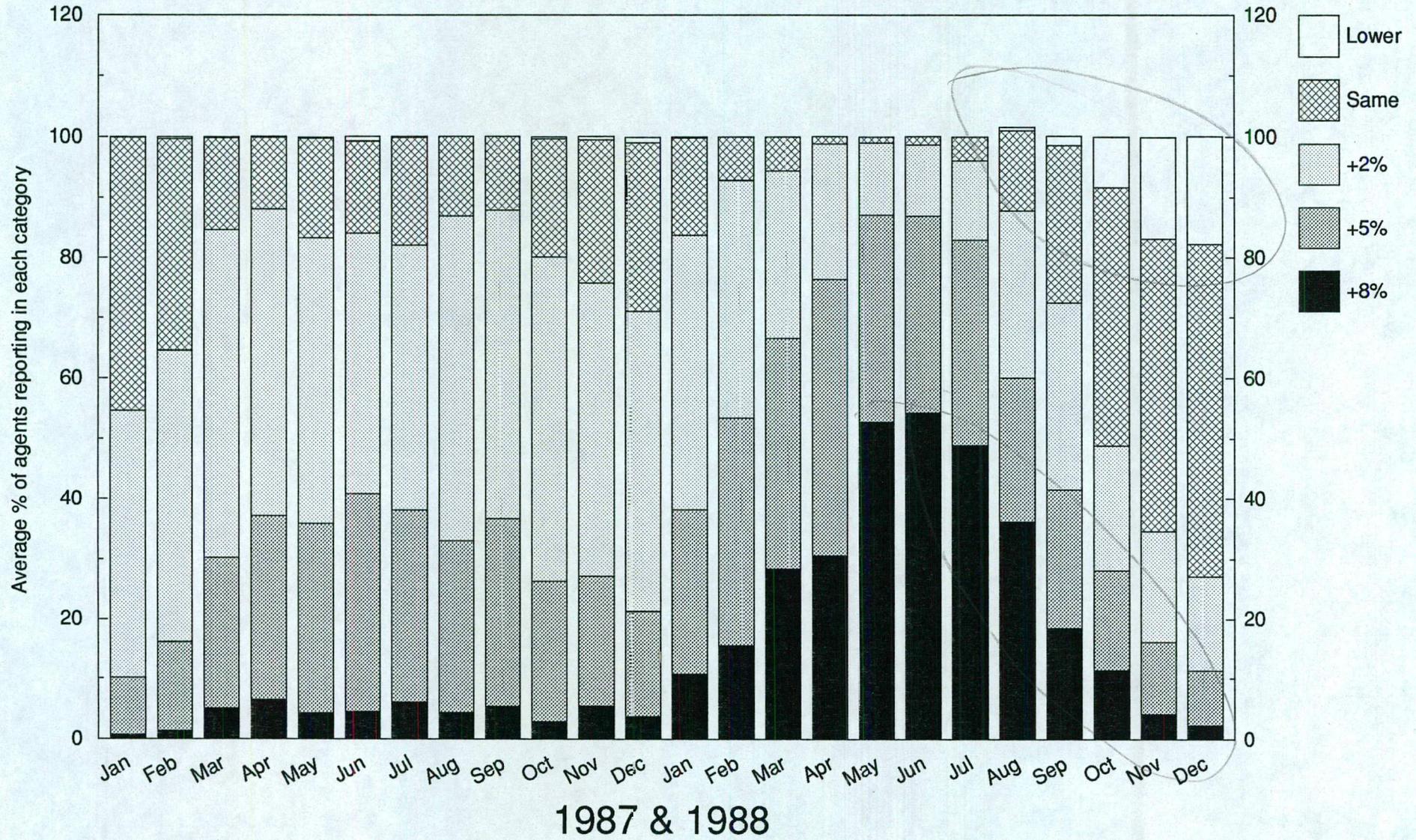
2. The results from the survey for the quarter ending December 1988 are now available, and have been added to the attached bar chart. A total of 188 estate agents contributed to this latest survey. Fewer than 3 per cent of respondents reported increases in house prices of more than 8 per cent, whereas 55 per cent indicated no change in house prices and nearly 18 per cent showed lower prices over the last 3 months.

*Thanks. Re pattern
of search for clarity.
2. When was the last occasion
re. 18% reported lower prices?*

Ruth Kosmin

RUTH KOSMIN
FIM2

Agents' Comparison With Prices Three Months Ago



Circulated at meeting



SCOTTISH OFFICE
WHITEHALL LONDON SW1A 2AU

Paul Gray Esq
Private Secretary
10 Downing Street
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CHIEF SECRETARY	
REC.	25 JAN 1989
FOR	Mr Edwards
TO	Cx, Mr Anson, Mr Phillips, Mr McIntyre Mrs Lacey, Mr Seward Mr Betenour, Mr Call

gwp

25 January 1989

FLEXI OWNERSHIP AND RENTS TO MORTGAGES

I refer to Richard Wilson's letter of 20 January attaching some examples of how the two flexi ownership schemes, which are due to be discussed at today's meeting will work out in practice. I attach copies of some reworked examples on the same basis which I would be most grateful if you could make available to Ministers attending the meeting.

The point is that my Secretary of State considers that while the examples attached to Richard's letter are useful it would be more helpful for colleagues to have available examples set out on a strictly comparable basis. The alternatives enclosed compare the impact of the schemes for tenants on 10 years discount entitlement under RTB who are an important target group for the new scheme. The examples have also been adjusted to bring out the combined impact of the calculation of the initial discount and the additional free equity which will be available to tenants so that the full impact of the two options can be properly considered.

DAVID CRAWLEY
Private Secretary

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EXAMPLE 1: LONDON

A tenant lives in a council house, worth the average London price of £60,000. He has been a tenant for 10 years, and therefore qualifies for a 40% Right-To-Buy (RTB) discount. After deducting £5 for upkeep, the balance of £16 per week would support a mortgage of £7,800.

OPTION I

- a. The tenant's mortgage will buy 7,800/60,000 or 13% of the property.
- b. The free initial discount (RTB-10%) is 30% of the property.
- c. The tenant's total stake is therefore 13%+30% or 43% of the property, worth £25,800.
- d. The public sector has a charge of 57% on the property.
- e. Free bonus points available = 20% or £12,000.
- f. Therefore total percentage of stake available by loan and free equity = 63% or £37,800

OPTION II

- a. The RTB discount is worth 40% of £60,000, or £24,000. The RTB discounted price is therefore £36,000.
- b. The tenant's mortgage will meet 7,800/36,000 or about 22% of the discounted price.
- c. The tenant's total stake in the house is therefore about 22%, worth £13,000.
- d. The public sector has a charge of about 78% on the property.
- e. Free bonus points available = 38% or £22,800.
- f. Therefore total percentage of stake available by loan and free equity = 60% or £36,000

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EXAMPLE 2: AVERAGE PRICE AREA (ENGLAND)

A tenant lives in a council house worth £30,000, the England average price. He has been a tenant for 10 years and has therefore qualified for a Right-To-Buy (RTB) discount of 40%. The tenant is paying the average rent for England of £18.50 per week. After deducting £5 for upkeep, the balance of £13.50 per week would support a mortgage of £6,600.

OPTION I

- a. The tenant's mortgage will buy 6,600/30,000 or 22% of the property.
- b. The free initial discount (RTB-10%) is 30% of the property.
- c. The tenant's total stake is therefore 22%+30% or 52% of the property, worth £15,600.
- d. The public sector has a charge of 48% on the property.
- e. Free bonus points available = 20% or £6,000.
- f. Therefore total percentage of stake available by loan and free equity = 72% or £21,600

OPTION II

- a. The RTB discount is worth 40% of £30,000 or £12,000. The RTB discounted price is therefore £18,000.
- b. The tenant's mortgage will meet 6,600/12,000 or about 37% of the discounted price.
- c. The tenant's total stake is therefore about 37%, worth about £11,100.
- d. The public sector has a charge of about 63% on the property.
- e. Free bonus points available = 23% or £6,900.
- f. Therefore total percentage stake available by loan and free equity = 60% or £18,000

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EXAMPLE 3: LOW PRICE AREA

A tenant lives in a council house in a low price area, worth £20,000. He has been a tenant for 10 years, and therefore qualifies for a Right-To-Buy (RTB) discount of 40%. He currently pays rent for £17 per week. After deducting £5 for upkeep, the balance of £12 per week would support a mortgage of £5,850.

OPTION I

A. The tenant's mortgage will buy 5,850/20,000 or about 29% of the property.

b. The free initial discount (RTB-10%) is 30% of the property.

c. The tenant's total stake is therefore about 29%+30% or 59% of the property, worth £11,800.

d. The public sector has a charge of about 41% on the property.

e. Free bonus points available = £20,000 or £4,000.

f. Therefore total percentage of stake available by loan and free equity = 79% or £15,800

OPTION II

a. RTB discount is worth 40% of £20,000 or £8,000. Therefore RTB discounted price is therefore £12,000.

b. The tenant's mortgage will meet 5,850/12,000 or about 49% of the discounted price.

c. The tenant's total stake in the house is therefore about 49%, worth £9,800.

d. The public sector has a charge of about 51% on the property.

e. Free bonus points available = 11% or £2,200.

f. Therefore total percentage of stake available by loan and free equity = 60% or £12,000



FROM: D I SPARKES
DATE: 25 January 1989

MS KOSMIN

BF R/2

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Hibberd
Mr O'Donnell
Mr Grice

HOUSE PRICES: RICS SURVEY

The Chancellor was most grateful for your note of 24 January and chart illustrating the results of the latest monthly questionnaire of the housing market undertaken by the Royal Institution of Chartered Surveyors. He has commented that the pattern that is emerging could scarcely be clearer. He would like to know when was the last occasion on which 18 per cent of respondents reported lower prices over the previous three months.

D.I.
DUNCAN SPARKES



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My ref:

Your ref:

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1 3AG

CH/EXCHEQUER	
REC.	27 JAN 1989
ACTION	MR WOOD
COPIES TO	CST SER P MIDDLETON MR ANSON, MR PHILLIPS MR BURROWER, MR EDWARDS MRS LOMAX, MRS HOLMAN MR BETENSON, MR JESSOP MRS CHAPLEN, MR TIRRE MR CALL

27 January 1989

✓ 271
WITH ATTACHMENT

Dear Nigel

Following our talk about land for housing and the planning system on 18 January, I thought it would be helpful if I wrote to you to explain more fully what we are doing on ensuring an adequate supply of land for housing and the scope for getting developers to pay for more of the infrastructure costs associated with new development.

Land for housing is mainly a South East problem. A third of England's population live in the region and it accounts for only a fifth of the total land area. Moreover, outside London about 40% of it is covered either by Green Belt or by Areas of Outstanding Natural Beauty, which is obviously not available for major housing development. But, outside London, urban areas account for only about 12 1/2% of the total land area and this is unlikely to increase by more than about 1% up to the year 2000. There is also considerable scope for new building in London itself and one of my aims is to encourage maximum use of urban sites, particularly where this supports our policies for urban regeneration. So there is no real shortage of land for development. On the other hand, as we well know, there is strident opposition to new development, particularly housing, in almost every constituency in the Home Counties. That is a political reality that we have to live with, although I have done all I can to get people to accept that housing is not a form of environmental pollution and that the need for new housing in the South East is generated mainly by those who already live there - by their sons and daughters, by old people living longer and by more people wanting to set up home on their own.

It is the function of the planning system to ensure that sufficient land is allocated to meet these needs, while maintaining the Green Belt and protecting the countryside from uncontrolled development. On the whole the system succeeds in doing this, but it is a very difficult balance to achieve - and even more difficult to convince people that we are getting it right. Despite these constraints, the South East has broadly maintained its share of national housing output, and that output has been on a rising trend for several years. 1987 saw the highest level of housing completions for the past 14 years and

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1988 is likely to have been at least as high. Even so, I doubt if we have succeeded in making enough sites available in the South East at least to meet what the builders perceive to be the demand. The high house prices of last year, and the growing number of "homeless" (both in the cities and the rural areas), are evidence of this.

That is why I am trying to encourage more land with permission to come onto the market, both through Section 52 agreements and through the local needs announcement that I mentioned.

In the South East our main instrument for ensuring that the planning system provides sufficient land for housing is SERPLAN - the voluntary association that includes all the county planning authorities. Last year we succeeded in reaching agreement with them on substantially increasing the housing provision to be made over the next ten years. We needed to revise the guidance that I had given them in 1986 in the light of the new OPCS population and household projections. This involved some difficult negotiations but in the end SERPLAN agreed that the overall total for London and the South East for 1991-2001 should be increased from 460,000 to 560-580,000. They have now reached agreement on how this increased provision should be distributed at county level and I will shortly be issuing a statement endorsing their proposals. As I said when we met, I think I have now done as much as I can, for the present, in ensuring that the planning system delivers an adequate supply of land for housing in the South East.

Our proposals on the future of Development Plans will not affect this planning process. Indeed I think it will strengthen it. It will recognise the importance of the regional dimension in planning and it will simplify and expedite planning at the county level (by having concise statements of county planning policies rather than the grossly over-elaborate structure plans); and it will provide for single-tier development plans at the District level, where the county provision is translated into specific land allocations.

We do not at present have SERPLAN-type arrangements in most other parts of the country, except in the metropolitan areas, but the new system will encourage their development. We do, however, monitor the provision of housing land throughout England and we will shortly be publishing the latest report on this; I enclose an advance copy. This shows that although there are few areas where there is less than a 5 year supply, the general picture for the next five years is reasonably satisfactory. What was not satisfactory was that, at the time to which this report relates (March 1988), too many counties were pitching longer-term provision in structure plans at too low a level. Our subsequent discussions with SERPLAN have corrected this tendency, and we are now starting work with SERPLAN on reviewing the South East regional guidance and extending it beyond 2001, taking account of the increased housing provision that has been agreed with them.

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As to meeting the costs of development, I agree with you that we should look to the housebuilders to meet much of the local infrastructure costs generated by their development. This is already the case as regards the cost of on-site services, estate roads etc. But there are two ways in which developers can be persuaded to take on more than this. Firstly, we have encouraged the concept of "new villages" or new settlements where the developer can be expected to meet, not only the cost of the basic services, roads etc, but also to make a substantial contribution to the provision of other community services, local schools, playing fields and so forth. The big housebuilders are very keen on this idea and there are several schemes of this kind in the pipeline. I expect to see more. Secondly there is considerable scope for agreements under Section 52 of the Town and Country Planning Act 1971 which enables local planning authorities to enter into agreements whereby the developer undertakes to carry out, or finance, road improvements and other services beyond the site that he is developing, or to provide community facilities as part of his development.

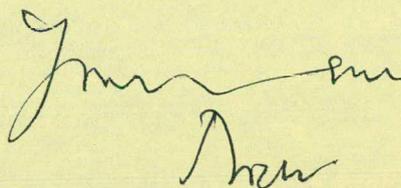
In the recent past we have had reason to be concerned about the ways in which some local authorities have abused the provisions of Section 52 by making grossly unreasonable demands on developers for financial payments or other benefits not directly related to the development proposed. But there is ample scope for reasonable agreements between local planning authorities and developers on meeting the costs of development, and the larger housebuilders have shown themselves ready to enter into such agreements in exchange for planning permission. Where the costs involved are significant, this will affect the price that the developer is prepared to pay for the land, so the cost is in effect borne by the landowner and not the housebuyer. It seems a wholly beneficial arrangement and one that we can encourage.

In the last White Paper on deregulation (Cm 512) we noted that some local authorities seek such agreements where they are not necessary in order for the development to proceed, and that the Government was considering the issue of further policy guidance to curtail the abuse of these powers. We have had discussions with John Sainsbury's group about this, and we are preparing a consultation paper that will set out both new guidance on the proper scope of such agreements and proposals for legislation to improve the statutory provisions, which could be included in the Planning Bill that we hope to have in 1989/90. I will let you see a copy of the consultation document when it is ready. So far we have been concerned to prevent the scope for abuse and to facilitate sensible agreements, rather than to encourage wider use of such arrangements. But, following our talk, I think we could well take a more positive line and encourage developers to negotiate agreements with local planning authorities on meeting part or all of the costs directly associated with new development. This might well help to moderate the opposition to new housing where this is seen as imposing costs on the locality which the developer does little to offset. The more enlightened housebuilders are likely to see that they could help to reduce

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these obstacles to new development development by providing something tangible that will benefit the local community. Such negotiations between the developer and the planning authority are compatible with the planning process and the market mechanism. I think we can do more to encourage them.

I have now received your letter of 19 January in response to my letter to H Committee colleagues about my proposal to encourage the provision of affordable housing for local people in rural areas. The Prime Minister has raised similar points and I am writing to her to explain how we will deal with them. The main safeguard is that local planning authorities will not be prepared to release additional land of this kind unless they are satisfied that the housing will be kept available for local needs. At the same time we will be emphasising that they must continue to make adequate provision of land to meet the general demand for houses for owner-occupation. The advantage of the special arrangements that I am now proposing is that they will bring forward additional land for housing, which would not otherwise have been allocated, and by restricting its use in this way its cost will be less than it would be if sold for general housing development. Finally, I am giving further thought to the question of surplus publicly owned land and what more we can do to ensure its release for development. I will write to you again about that.

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', with a stylized flourish at the end.

NICHOLAS RIDLEY

Duncan

pass

PERSONAL AND CONFIDENTIAL

CHANCELLOR

FROM: A G TYRIE

DATE: 30 January 1989

cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mrs Chaplin
Mr Call

*As you know,
I v. much agree
with your 7-11,
also 6 if it
can be done.*

FLEXI-OWNERSHIP, THE RIGHT-TO-BUY, AND THE ELECTION

I gather that the Chief Secretary is winning on this and that flexi-ownership, hopefully, has been scotched (excuse the pun, except in Scotland!).

2. The arguments against flexi-ownership are overwhelming. The two most important, in housing policy terms, are that it would:

- Put properties in the hands of people who can't maintain them, thereby generating enormous pressure for an expansion in repair grants in the long run.
- Force the Government to get involved once more in massive subsidised housing projects.

Two other good reasons are:

- The loss of Right-to-Buy receipts (there are also good doctrinal reasons for asking people to pay something).
- The manifest unfairness of flexi-ownership both to those in the private rented sector and those who have bought their homes under the RTB.

3. The trick we have taken with the Right-to-Buy is to transfer stock to people who, on the whole, have been able to maintain it, but not to those who can't. In other words our rhetoric has been largely true: we have taken a large wedge of State dependent tenants and made them self-reliant and independent, and we are reaping the political benefits.

4. The only strong argument I can think of for flexi-ownership would be political: that is, it might help us win the next election. But flexi-ownership is not only badly targeted in housing policy terms it is badly targeted politically. The key areas for us are inner city tenanted blocks in constituencies which were once safe Labour seats but are now becoming marginal. There are half a dozen like this in London. But we don't need flexi-ownership to do something here.

5. A "booster package"? I think there is a strong case, on political grounds, for implementing part of the DoE's Right-to-Buy "booster package", as soon as possible. I certainly think that, for flats, we should increase the maximum discount ceiling to £50,000 (at present £35,000). We might also consider an increase in the initial discount to 40% (at present 32%), but this will cost us more in receipts foregone.

6. A substantial increase of flat sales in inner London could enable us to hold or take some key constituencies.

AGT.

A G TYRIE

PWP

FROM: S J DAVIES

DATE: 30 January 1989

CHANCELLOR

cc Sir P Middleton
 Sir T Burns
 Mr Byatt Mr Monck
 Mr Scholar
 Mr C W Kelly
 Mr Peretz
 Mr Riley
 Mr Sedgwick
 Mr Spackman
 Mr Gieve
 Mr O'Donnell
 Mrs Holmans
 Miss S Owen
 Mr A McIntyre - CSO

Ch/ The Muellbauer claims are exaggerated (and in some cases actually wrong).

PROFESSOR MUELLBAUER ON UK HOUSE PRICES AND MIGRATION

Just before Christmas you asked for comments on a new paper by Muellbauer and Murphy on "UK House Prices and Migration: Economic and Investment Implications".

2. The main claims of the paper are:

- there is currently a high rate of net regional migration out of the south east, aggravating the labour shortage there
- there is likely to have been substantial net migration out of the UK in 1988, and still higher net emigration in 1989
- the net regional migration out of the south east and net emigration from the UK are the result of rapid house price inflation, particularly in the south east
- the rate of emigration estimated for 1988 could imply a balance of payments outflow of about £5 billion a year.

3. This note, which is based on comments from Stephanie Holmans in PSE, Susan Owen in EA2, and Alan McIntyre of the CSO, discusses these claims.

Regional migration

4. Muellbauer and Murphy's claim that there is currently substantial net migration out of the south east to other parts of the country may not be correct. There are two sources of data on regional migration. Muellbauer and Murphy use NHS data on patient transfers between doctors in different regions. This data series shows substantial net migration of population out of the south east in 1987. However, an alternative data series from the Labour Force Survey - which covers movements by heads of households who are in the labour force - shows a small net inflow into the south east in 1987.

5. The difference between the two series could simply reflect people outside the labour force - principally the retired - selling up and leaving the south east and people in the labour force moving in to take their place. The NHS source would also be biased if those leaving the south east tended to be relatively elderly and those arriving in the south east tended to be relatively young, and if - as seems likely - the young are more tardy than the elderly about re-registering with doctors when they move. It has to be acknowledged however, that the LFS contain only a small sample of migrants, and so is subject to a considerable margin of sampling error.

The effect of house prices on regional migration

6. Muellbauer and Murphy present an equation for net migration between the south east and other regions of the UK. This equation suggests that regional migration is determined, inter alia, by regional differences in house price/earnings ratios and unemployment rates. However, work by some other researchers - which PSE division is currently in the process of analysing and assessing - suggests that regional house prices had little effect on regional migration over the period 1983 to 1986; except that workers over the age of 54 were more likely to move out of an area where house prices are relatively high. This research used the LFS migration data; and the difference in data series may account for the different finding. If it really is the retired and those

close to retirement who are likely to respond to higher house prices in an area by moving out, then - contrary to all the fuss made by Muellbauer and Murphy - the increase in relative house prices has actually helped to equilibrate labour supply and demand in the south east.

International migration

7. Muellbauer and Murphy's prediction of substantial net outward migration from the UK in 1988 was reported in the press as if based on data available for the year. In fact, no data have been published for 1988. What we do know is that the period from 1983 to 1987 saw five years of net inward migration into the UK, whereas between 1971 and 1982 there was normally substantial outward migration (only 2 years - 1978 and 1979 - saw net inward migration and then only on a very small scale). The change in recent years presumably reflects the improved economic performance of the UK, and also to some extent the deterioration of the political situation in South Africa. (I understand from OPCS that preliminary unpublished data for the first half of 1988 do show net emigration from the UK; though on a much smaller scale than suggested by Muellbauer and Murphy. Apparently there has been a fall in inward migration from Europe and a rise in outward migration to the old Commonwealth.) It is worth noting that the international migration figures are subject to large sampling error: they are based on a voluntary survey of passengers which contains only a small sample of migrants.

8. Muellbauer and Murphy's prediction of net outward migration of 50,000 in 1988 and still higher net emigration in 1989 is the product of what seems to me a very dubious econometric equation. The equation explains net migration between the UK and other countries in terms of various indicators of economic performance relative to the other G7 countries - relative unemployment rates, relative real wage growth, relative employment growth, relative GDP per capita growth - and in terms of UK house prices relative to UK per capita disposable income. Thus the equation seems to be about flows between UK and the rest of the G7.

9. However, the migration data shows that flows between the UK on the one hand and Europe and the US on the other hand have not tended to change much from year to year, at least until well into the 1980s. By far the largest part of the fluctuations in UK migration has been in flows between the UK and old Commonwealth countries. An equation which seeks to explain net emigration in terms of UK economic performance relative to G7 seems unlikely to be able to account accurately for these fluctuations. It also cannot account for emigration to OPEC countries in the 1970s. It looks as though house prices "work" in Muellbauer and Murphy's equation because the 1972 house price boom "explains" a surge in outward migration in 1974. There was a large rise in net migration to Australia, Canada and New Zealand in 1974, and also to the Middle East. I would not myself be confident that this was due to UK house prices, as opposed to the boom in commodity prices and the first oil price shock.

10. That is not to deny that house prices must have some effect on international migration. There must be people now who went abroad a few years ago and who might like to come back but find that it is virtually impossible for them to do so because of what has happened to UK house prices in their absence. But I would guess the main factors behind the latest migration trends referred to in paragraph 7 have been more buoyant economic conditions in southern Europe and Australia, rather than high UK house prices.

Effect on the balance of payments

11. If, as seems likely, Muellbauer and Murphy are exaggerating the current rate of net emigration out of the UK, then their claim about the size of the balance of payments effect obviously falls. Nevertheless, their argument that the statistics greatly understate the balance of payments flows associated with a given level of migration calls for some comment.

12. It is certainly true that the balance of payments statistics at present count only a fraction of the assets of departing emigrants as an outflow on the current account. The current account debits associated with outward migration cover only money

taken abroad at or before the time of migration or for which definite plans for transfer had been made at the time of migration.

13. I understand that there is some international dispute amongst statisticians about the appropriate statistical treatment of other assets owned by migrants. But it seems clear that it would be very misleading in the case of migrants who leave the UK temporarily to work abroad to treat all their assets - including the value of the houses that they retain in the UK when they go abroad - as a current account debit. Since expatriates working abroad often get paid a lot more than they earn at home, they may well transfer relatively little money out of the UK when they leave and transfer much more back when they return. At all events, the Muellbauer and Murphy estimate of the balance of payments effect - £42,000 per emigrant in 1988 - is simply plucked out of the air.

Conclusion

14. While the task of economic management would undoubtedly be easier if house prices were better behaved, it is far from clear that high house price inflation in recent years has been damaging in the particular ways that Muellbauer and Murphy claim.

SJD

S J DAVIES



FROM: D I SPARKES
DATE: 31 January 1989

MR S J DAVIES

cc Sir P Middleton
Sir T Burns
Mr Monck
Mr Byatt
Mr Scholar
Mr Kelly
Mr Peretz
Mr Riley
Mr Sedgwick
Mr Spackman
Mr Gieve
Mr O'Donnell
Mrs Holmans
Miss S Owen
Mr McIntyre - CSO

pmw

PROFESSOR MUELLBAUER ON UK HOUSE PRICES AND MIGRATION

The Chancellor was grateful for your minute of 30 January analysing the findings of the paper by Muellbauer and Murphy on house prices and migration. He read this with interest.

D.I.

DUNCAN SPARKES