

HOUSING MARKETS: A DISCUSSION OF SUPPLY AND DEMAND IN LATE 20th CENTURY BRITISH HOUSING

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Housing Markets;

A Discussion of Supply and Demand in Late 20th Century British Housing

Introduction

Shelter and housing is one of the basic necessities of life, and is supported, in different ways, by all political parties, through direct provision and/or subsidy (Malpass and Murie, 1994). Virtually every individual in the UK consumes housing in one of its many forms, the exception being the homeless. Yet even the homeless require some form of shelter and often wish to become part of the housing “market” (if the term is used in a broad sense to encompass all housing provision, not just market provided housing). Housing costs (in the form of the financing of mortgage debt or rent) can prove to be a major drain on household resources. For instance, in 1989 mortgage debt amounted to more than half of Gross Domestic Product (MacLennan and Gibb, 1993). It therefore follows that housing is not only important for the practical provision of shelter, it is also relevant in the way in which it effects individual household’s finances and spending patterns (Lee and Robinson, 1990; Miles, 1992).

These are just two of the possible perspectives through which the housing market can be viewed, resulting in an academic field which is wide and disparate. When examining housing markets, it is clear that a number of different approaches can be adopted arising from the multitude of different research areas which constitute “the housing market”. Understandably, this creates a diverse literature, with examinations of housing tenure sitting alongside econometric house price models. There is a need to synthesise these discussions to try to provide an examination of the central theme of the UK housing market, and it is just such an objective that underlies this paper. The aim is to examine the core theme which underlies the British housing market, namely supply, demand and the interplay between the various tenures.

There are a number of analytical divisions which separate the “overall” housing market (i.e. that which encompasses all housing) into a number of distinct smaller markets. At the margins, the distinction becomes

blurred, but generally the submarkets are autonomous (Black and Stafford, 1988). These submarkets may be disaggregated in terms of:

- House Type

House type is a loose term, used in this context to define the categorisation of dwellings in terms of “style”. Houses are available in many different “styles” ranging from small Victorian terraces to modern executive homes. Widely accepted definitions are those used by the Department of the Environment (DoE, 1991b, DoE 1993a);

Detached House

Semi-detached House

Terrace House

Flat or Maisonette

Bungalow

All of these categorisations may be further split through the addition of the age of the dwelling and the size of the property. MacLennan (MacLennan, 1982) developed the notion of defining housing submarkets in terms of how would-be households’ search patterns effectively filter housing opportunities, taking into account acceptable tenures, types and locations, whilst discounting those which are unacceptable. Every household consists of one or more individuals, with slightly differing preferences. Therefore, submarkets evolving from search patterns can only be an amalgamation of similar household preferences. Prior to beginning a search for a house, would-be householders will establish parameters of house types that will be of interest e.g. a large garden for children; a flat for easy maintenance, etc. The result is that the housing market is once again subdivided into submarkets, which are quasi-autonomous.

- Housing Tenure

The markets for different housing tenures tend to contain different types of household, income groups, etc. However, as with much of the housing market, things are not this simple. Households on the margin of each tenure will consider the “neighbouring” tenures, if the relative costs, benefits and choices are both comparable and available. The market for different tenures is therefore complex, with demand for one tenure, depending to some extent, on the availability of other tenures (Murie et al, 1976). For example, a household which may have viewed a rented house from a local authority as an acceptable tenure may, find themselves examining other tenures, as this choice is unavailable. This unavailability could be due (amongst other factors) to a lack of supply, exacerbated by an allocation system which “rations” those units that remain, favouring households which

meet certain criteria. It has been argued that the use of tenure as a label is little more than a consumption definition, only illustrating the terms on which households occupy their homes whilst neglecting to show how homes are supplied and the financial situation of the households (Malpass and Murie, 1994). This may be true, yet it does allow the different patterns of housing search to be defined in broad terms, highlighting a method of sub-market delineation.

- Location

Similar house types are often found in similar areas with the result that in some respects geography is the practical reflection of both tenure and type delineation. As housing is fixed in one location, housing market geography (or housing market areas) is an important, some would say crucial, criterion for delineating housing markets. Much discussion has taken place regarding the extent to which housing is divided into a number of small geographical submarkets (Ball and Kirwan, 1977; Munro, 1986; Maclellan et al, 1987; Bramley et al, 1990). These exist because of the fixed nature of housing which presents households with different geographical choices. Survey work carried out by the author has found that 58% of county council planning departments took some notice of the geographical make-up of housing markets, when determining housing policies[‡]. For instance, since the 1970s, Nottingham County Council (NCC) has used travel-to-work definitions to reflect housing market areas. As a result, instead of preparing housing allocations for 8 districts, the County Planners have prepared the allocations for 5 “sub-areas”, referring to the travel-to-work areas of the eight districts. The net result is that a District’s housing allocation consists of a collection of travel-to-work areas. For example, the South Nottingham sub-area comprises all or part of six districts (NCC, 1994). Such attempts at reflecting the actual housing market rather than an administrative area has been suggested by the DoE (DoE, 1991c).

Although, to a degree, such market definitions exist in all tenures, the nature of the present housing supply system is such that it is most economically-secure owner-occupiers (and to a lesser extent those considering private renting) who can effectively realise their aspirations as regards house type and location. In the case of social housing for need (see below) there is greater demand than supply. For instance local authorities often have lists of those requiring housing that far out-numbers the available supply of housing units that it can offer. In addition the supply of units is often disproportionately made up of the less attractive stock, the so called “difficult to let estates”. The choices available to households requiring social housing is therefore limited to what the housing providers can offer.

[‡] In the summer of 1994 the author carried out a questionnaire survey of all the County Councils in England and Wales, to ascertain the extent to which housing market indicators are utilised. Of the 47 sent 43 were returned (a response rate of 91%) One of the questions concerned the definition of market areas.

These three possible ways of viewing housing markets, namely in terms of house tenure; house type and geographical location are purely illustrative. They are descriptive of the way individual householders search patterns may create a means by which the UK housing stock becomes delineated and fragmented into various markets. Yet a housing market that is currently viewed as falling within one type of definition may not always remain so. Over time the housing in one geographical area can find itself in a different housing market either through tenure change (owner occupation to private renting; local authority renting to owner occupation) or through redevelopment and a change of house types.

A definition of markets found in many economic models is the “exchange process” view, with supply and demand reaching an equilibrium where price is determined (MacLennan, 1982; Harvey, 1993). However, when the British housing market is reduced to this basic model, it becomes clear that things are not this straightforward. Whilst this definition may be acceptable in an abstract form, the housing market is far more complex. For instance, it contains sub-markets which are based around the supply of units for socially-determined need rather than for economically-derived profit. This is perhaps the most obvious fracture in the housing market, the split between housing for need and housing for demand (see below).

This paper will try to examine the flows within the aggregate market, i.e. the fluidity of supply and demand for housing in its most widespread definition. It is important to note that the term “demand” is used to encompass both effective demand and housing need, (a difference which is discussed in more detail below). The penultimate section will try to highlight some of the differing perceptions of housing demand through the 1990s and the problems that private housebuilders will encounter over the next ten years.

Housing Supply

Throughout the 1980s controls on all forms of public spending, in particular local authority spending, has resulted in a reduction in public sector housing provision (see Table 1). An examination of the housing and construction statistics clearly demonstrate that throughout the decade, in the order of 30% of social housing provision has been for special needs, the elderly, the sick and the disabled (DoE, 1993a), those groups that the private sector do not cater for. This has meant that only two thirds of the units provided have been for general

needs housing, reducing even further new social housing provision for households whose only constraint is their inability to compete for housing effectively in the private sector.

Table 1 Housebuilding Completion's in the United Kingdom: 1980-1992 (Number in brackets refer to percentage of total completion's)

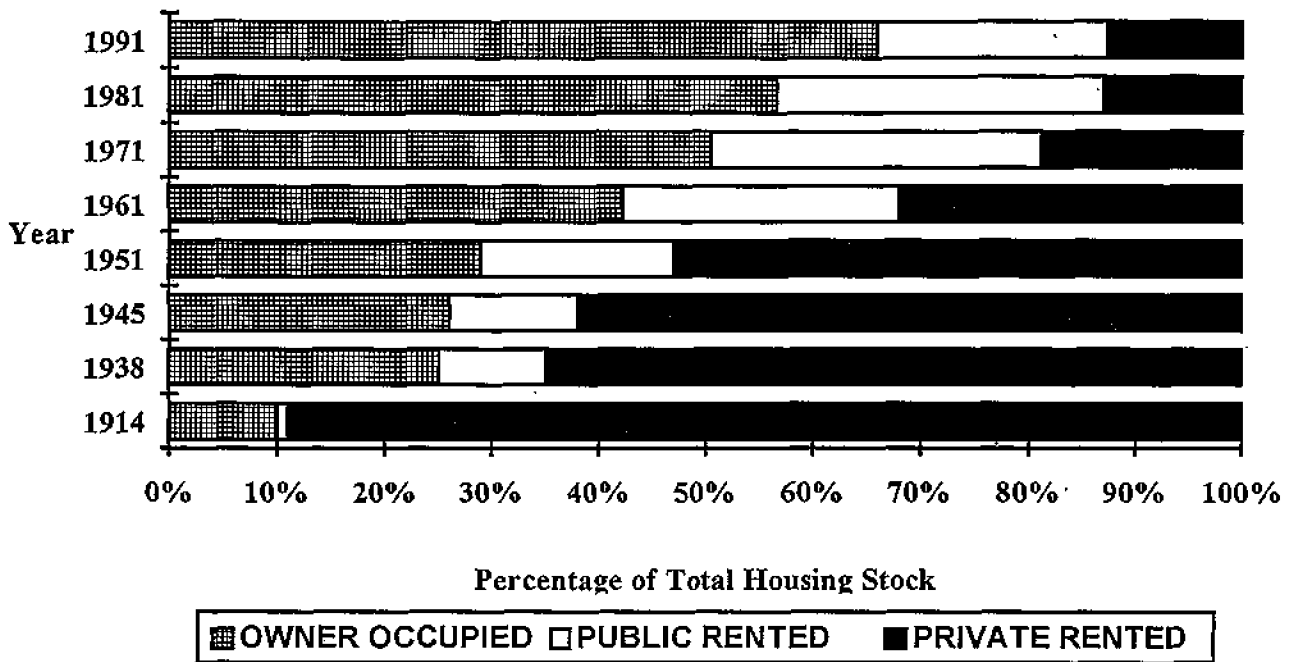
Year	Private Sector	Housing Associations	Public Sector	Total Completion's
1980	131,974 (54.5)	21,422 (8.9)	88,590 (36.6)	241,986
1981	118,579 (57.4)	19,420 (9.4)	68,567 (33.2)	206,566
1982	129,022 (70.5)	13,532 (7.4)	40,309 (22.0)	182,863
1983	153,038 (73.2)	16,777 (8.0)	39,218 (18.8)	209,033
1984	165,606 (75.1)	17,308 (7.8)	37,647 (17.1)	220,561
1985	163,470 (78.7)	13,734 (6.6)	30,452 (14.7)	207,656
1986	177,647 (82.2)	13,068 (6.1)	25,417 (11.8)	216,132
1987	191,187 (84.5)	13,117 (5.8)	21,853 (9.7)	226,157
1988	206,996 (85.6)	13,479 (5.6)	21,456 (8.9)	241,931
1989	187,504 (84.7)	14,598 (6.6)	19,323 (8.7)	221,425
1990	165,197 (82.5)	17,221 (8.6)	17,854 (8.9)	200,272
1991	156,859 (83.2)	20,500 (10.9)	11,225 (5.9)	188,584
1992	145,877 (82.3)	25,652 (14.5)	5,696 (3.2)	177,225

Source: *Table 6.1 of Housing and Construction Statistics 1980-1990 and 1982-1992*, DoE, HMSO.

Government policy has allowed many social housing tenants to purchase their home at a discount, the discount being greater the longer the individual has been a tenant. The success of these "right to buy" policies, has removed from the tenure the most attractive dwellings and the most affluent tenants. The "attrition" from such widespread tenure transfer and the lack of new general needs housing construction has in effect residualised the tenure (Morris and Winn, 1990; Forest, et al, 1990; Malpass, 1990). As can be seen in Table 1 the actual contribution to new supply from public sector construction has fallen to below 4% (the local authority is the dominant provider of homes in the public sector, consistently providing over 90% of the total output in the 1980s). To a significant degree, this shortfall has been compensated for by the re-emergence of housing

association provision. Combining both housing association and public sector completion's, has meant that social housing new-build has remained at around 15% of all completion's since 1986.

Figure 1: Changes in Tenure Patterns .Great Britain



Source; Table 3.1, Forrest, et al (1990) and Table 1, "Housing Finance", No 22.

Another source of housing for rent is from the private sector, renting homes for profit. This subsection was once the largest of the housing providers, but is now responsible for a very small proportion (see Figure 1). This decline has been due to a variety of factors ranging from legislation and political expediency, to alternative investment opportunities (Hamnett and Randolph, 1988). Private building of homes for rent has been minimal over recent years (Kearns and MacLennan, 1991) and as a result new supply of homes to this tenure is rather unusual, founded on properties transferring from other sections of the housing market. Interestingly, over recent years the number and proportion of privately rented properties has increased. In 1988, 9.2% (2,072,000) of the housing stock was privately rented, by 1992 this had increased to 9.7% (2,258,000). This increase could be due to incentives (Crook, et al, 1991; Merrett, 1992), yet it may be more likely to be a result of stagnation in owner occupied housing. Households have found themselves forced into becoming landlords, as they have found their properties difficult to sell. It could be argued that the number of privately rented properties is actually greater than appears in the statistics. This might arise from the way mortgage lenders increase repayments when a mortgage is granted on a home which is being let, as well as additional administration costs, and there is, therefore, an argument that a substantial amount of "informal" renting might be taking place. There is a case for research to be undertaken investigating the importance of this "informal" renting sector.

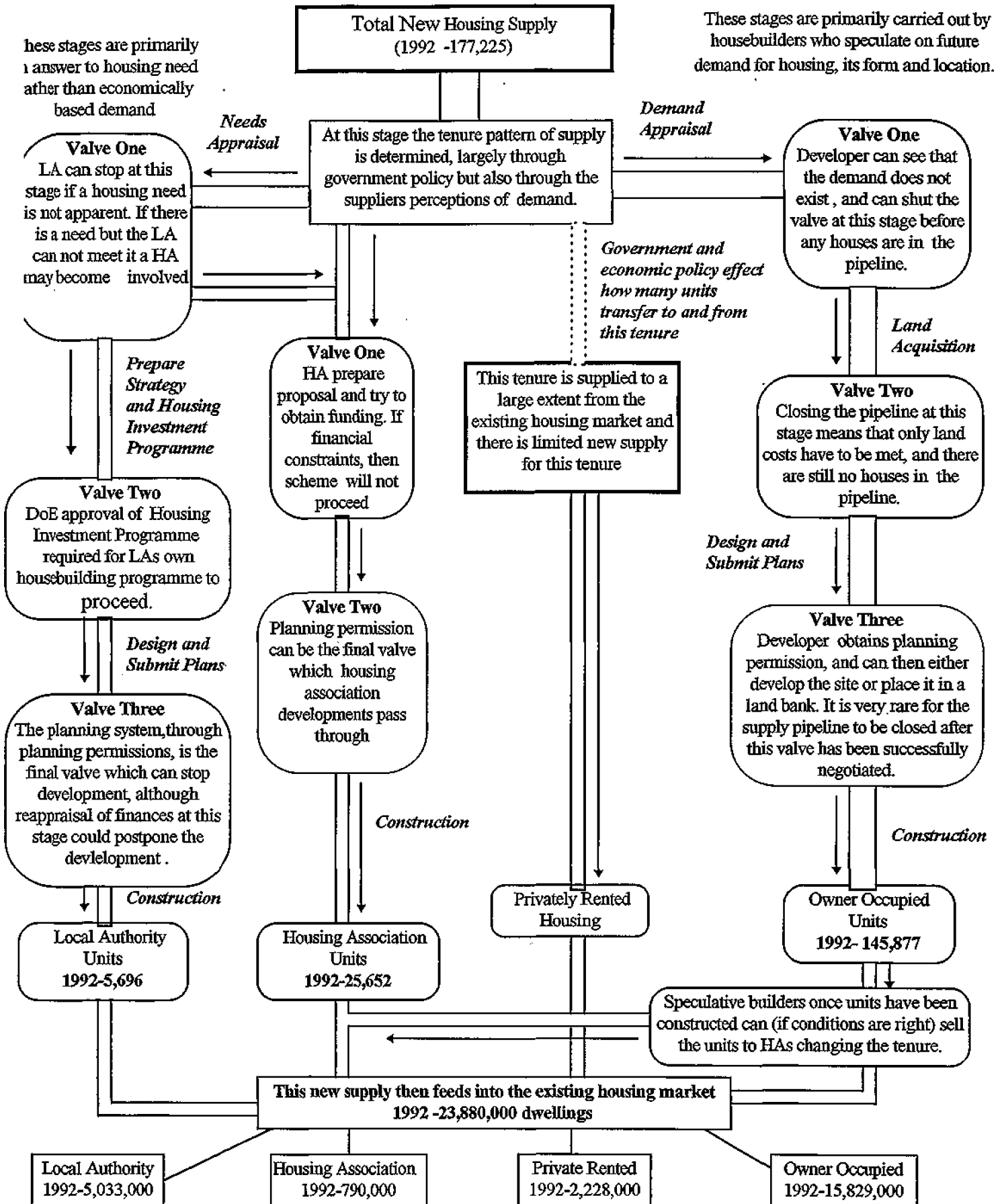
As can be seen in Table 1 the supply of new housing association dwellings has been gradually increasing since the mid 1980s, both in real terms and in terms of the proportion of all housing supplied. A problem exists in that many of these units have been purchased from private speculative housebuilders. There may, therefore, be a degree of double counting. This rather unusual “run-off” effect is discussed in more detail below. Table 1 illustrates how dominant the private sector is as a housing supplier. Even during the recent property slump, this form of housing provision has been responsible for around 80% of all new housing.

Pipeline Model of Housing Supply

The pipeline analogy, a system predominantly envisaged as a description of land availability (Hooper, 1985; DoE, 1993b) can be seen as a useful representation of the supply of housing to the market. A model using this analogy is shown in Figure 2. The aggregate (all tenure) level of housing supply is represented in Figure 2 by a large “header tank”. This is then separated into different “pipes” satisfying different demands or needs. The volume of housing flowing along each “pipe” alters primarily as a result of government policy, but will also be affected by the way the providers perceive demand (see below). Changes by government in both their economic and housing policy, will result in changes in the pipeline which has to accommodate the greatest volume of housing. The degree to which there has been economic and political influence upon to specific pipelines has been discussed in detail, with debates highlighting the various subsidies that home ownership has received compared to other housing tenures (Pearce and Wilcox, 1991; Hills, 1991; Foster, 1993).

As the model demonstrates, the flow can be checked at various stages, but if it is not then it will have to flow from the end of the pipeline as residential units. To illustrate this, examine the owner occupied pipeline in Fig. 2. If the housebuilder believes a market does not exist after an initial appraisal, then the valve can be closed at this first stage. The work carried out to appraise sites does not require any formal commitment, only expenditure of resources, a cost which is averaged out and met by the overall profits from units constructed and sold. The next stage is the first where financial commitment in an actual or legal sense will have occurred, through the acquisition of land. This varies from holding the land on option (which is basically where the housebuilder pays the landowner some form of premium for an assurance that the land will not be sold to another developer) through to outright ownership. Even if the land is bought it can be “moth-balled” or held back by closing the next “valve”.

Figure 2 Supply of Housing to the Market



The final valve is controlled by a third party, the planning authority, and concerns the gaining of planning permission. Once the housing supply has passed this final “valve” there is only one economic outcome for the builders and that is production and sale. Any other option would be unpractical as the builder will be left with the costs incurred to reach this stage. As can be seen at the very end of this pipeline, the unit can be purchased by an organisation (a Housing Association for instance), or even an individual who sees it as being a unit for rent. In recent years particularly in 1992-93 there has been a flow from the private sector to Housing Associations. This is due to the fact that builders have found difficulty in selling completed units to private owner-occupiers during the recession, whilst the 1992 Autumn Statement resulted in Housing Associations receiving a “one-off” cash injection of £750 million. This was a result of government policy seeking to stabilise the housing market whilst boosting the provision of social housing. A similar situation exists in the other tenures, differing in the control “valves”.

Comparing the figures from Table 1, with the diagrammatic representation in Figure 2, it becomes clear that the “pipe” which has been responsible for most of the housing supply over the last twelve years is that of private housebuilding, the vast majority of which has been speculative building for owner occupation. Clearly local authority provision has been curtailed at the second “control valve” (where funding, through HIPs, has to be approved by the DoE).

Discussions often divide the housing supply model into two parts: social, needs based housing and that of demand based speculative housing for owner occupation. As can be seen from the model there is a point where speculative housing can be transferred into the housing association supply. It could be argued that this has only occurred recently because of the downturn in the housing market experienced in the late 1980s early 1990s, and the cash input the Treasury gave to housing associations in the 1992 Autumn Statement. However, the need for an integrated strategy is already apparent, as it would allow the supply to the whole housing market, be it at a local, regional or national level, to be examined. Once an idea of the trends in supply can be discerned, it would be easier for policies to be developed which could direct the flow of housing units along one or more “pipelines”. This is only required to the extent that it is necessary to manipulate the housing market to reflect the housing needs and demands of different groups.

Housing Demand

In the discussion which follows, the definition of housing demand is couched in the widest terms, referring to both effective housing demand and housing need. Effective demand exists when households not only want a product, but also have the economic means to acquire it (Chiddick & Dobson, 1986; Chiddick, 1987; Field & MacGregor, 1987). It is important to understand that this concept is very different from that identified by authors such as Watson (et al) (1973), Bramley (1989) and van Zijl (1993) who have predominantly approached the issue from the social objective of defining households in need.

Demand can be effectively placed into its own "markets", as different sectors and economic groups of the community will require different types of property. This will result in the type and location of property demanded being different. For instance, first-time buyer dwellings are usually relatively small, located in mixed tenure areas and urban environments, and, in housing terms, relatively inexpensive. "Executive" homes are usually large and in prestigious locations, with the result that they are more expensive and only affordable to higher income groups. The demographic and economic composition of the community within which the housebuilder works has therefore to be understood as it will have an input in the determination of the market and as a result the type of house produced. The provision of new rented housing through the social sector will primarily meet the needs of the weakest households (economically), although marginal households demands can be met by the "hybrid" tenures, such as shared ownership. The major factor operating in these markets is that they are, to all intents and purposes, "closed", so that households have to fulfil certain eligibility criteria, before a local authority or housing association will consider housing them.

There is a significant degree of uncertainty regarding the measurement of effective demand. If the would-be householder can purchase a dwelling at a current market price, then demand is effectively met. However, if the price is raised due to some external factor, would-be householders may find that they cannot demand effectively. If Bramley's assertions regarding the openness of housing markets is correct (Bramley, 1993) this would then result in an increase in the demand in the second area, where they may find that their demand becomes more effective. The result is, that supply problems in one area have created an increased demand in another area. This situation could continue to "ripple" out from one area

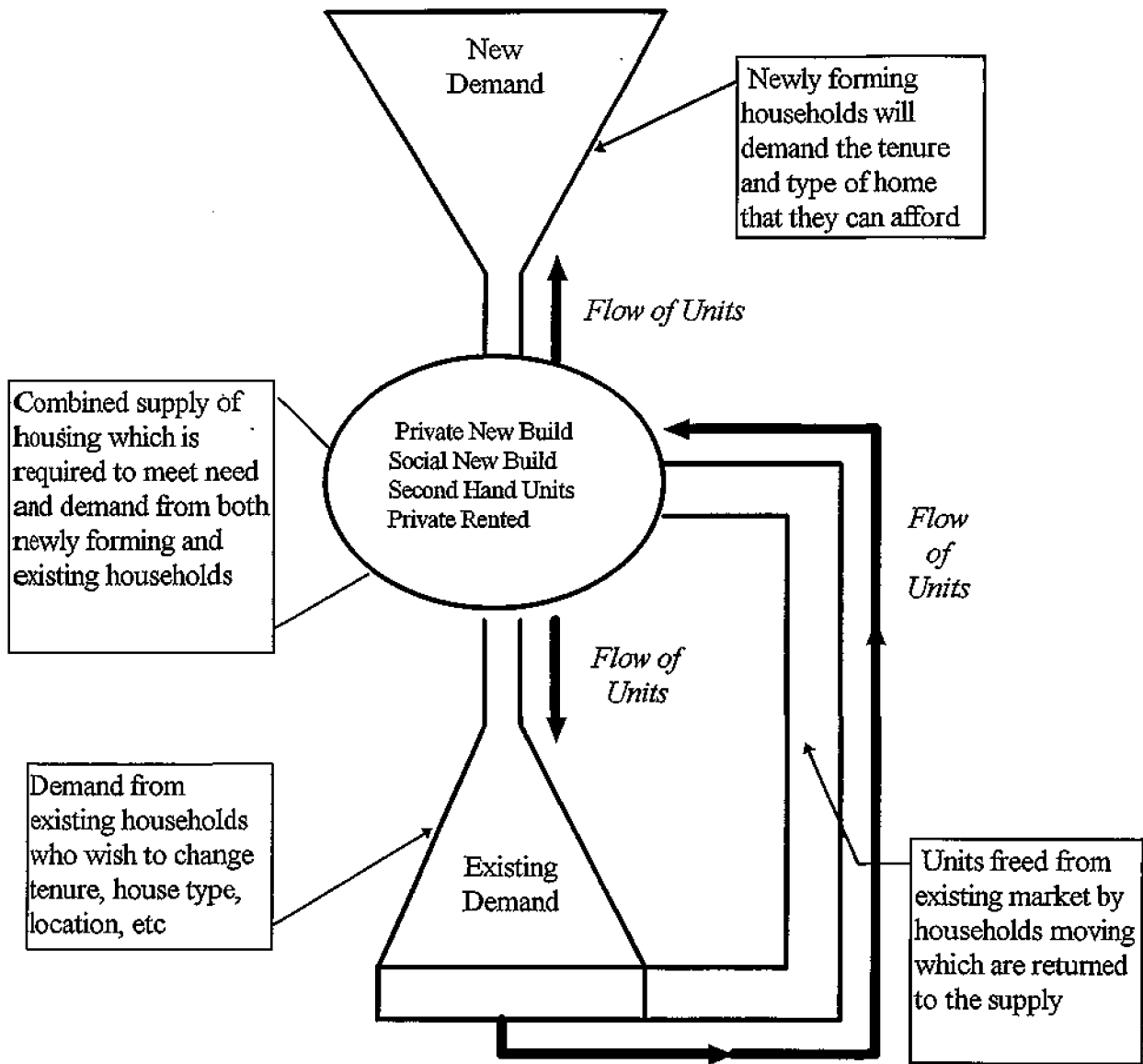
to another. The main problem is that demand is forced away from its intended market area, highlighting the extent to which housing markets, although disjointed at the local level, are all interconnected.

Speculative development for owner occupation is the dominant area for new housing construction and it has become the "mass tenure" for over two thirds of the population (see Figure 1). Surveys (Coles, 1991; Coles & Taylor, 1993; Cairncross, 1992; Forest and Murie, 1994) have highlighted that there is still a strong demand amongst would-be owner occupiers for house purchase, despite recent experiences of negative equity and repossessions. This demand, coupled with government policy which has, and continues to, promote owner occupation, has meant that the private sector's speculative housebuilding arm tends to dominate construction. There is, however, still a need for social housing, from individuals who cannot effectively demand owner occupied housing (National Federation of Housing Associations 1990; Bramley, 1991; Kleinman, 1991; Audit Commission, 1992).

In addition to the political implications associated with certain tenures, there are economic factors which connect housing to the wider economy (Miles, 1992). It is apparent that wage levels and confidence in future employment prospects will effect which tenure is chosen, if a choice is available. The level of financial commitment required to support a mortgage in addition to lending criteria which requires secure employment, means that entry to owner occupation is virtually precluded for many households on low income. Their demand for housing will have to be met by the social housing sector or, in cases where individuals fail to meet the criteria of the social housing providers, the privately rented market. Figure 3 gives a representation of the demand for housing. It can be seen that both demand by newly forming households and demand from existing households who change house or tenure, compete with each other for the available supply.

The supply of new homes as represented in Figure 2 is boosted in this model by the recycling of second hand homes. This is particularly important in the private rented and owner occupied sectors, where household moves are dominated by transfers within the existing stock. In 1991, only 10.8% of mortgages were granted on newly built properties (DoE, 1993, Tables 1.9, 1.10 & 1.11). This shows the dominance of the existing housing stock in the market. Although it has been suggested that current input from new home construction has increased (Stewart, 1994), available statistics do little to suggest this is having a major effect on the make-up of supply. The situation within the rented sector is even more marked, as limited new supply results in the existing stock monopolising the market.

Figure 3 Demand for Housing



Take, for example, public housing: between 1st April 1991 and 31st March 1992, 399,419 units were available for letting. It is estimated that of this only in the region of 3% were new construction. (Author's analysis of unpublished Chartered Institute of Housing Data)

The Demographic Effects on Housing Market Demand

The demand for housing is underlined by both the present and future demographic structure of the population. Once base-population has been determined, (either by the Office of Population Census and Surveys (OPCS), the DoE or in some cases independent demographic analysts) the statistics are adopted, to form the raw material for estimating housing market demand, namely the household. According to Office of Population Census & Surveys/General Register Office for Scotland (1992), a household is either,

"a/ One person living alone; or

b/ A group of people (who may or may not be related) living, or staying temporarily at the same address, with common housekeeping." p10

Although this definition is clearly intended to enumerate the types of households in existence in 1990s Britain, it still suffers from problems. Equations of actual household numbers still ignore the concept of potential households, i.e. persons living as part of a household, who would wish to form their own

Table 2 Household Projections

Forecaster	Period	Demand Per Annum
Audit Commission (1992) <i>Developing Local Authority Housing Strategies</i>	1991-2001	169,400-200,800 (England)
DoE (1991a) <i>Household Projections</i>	1991-2001	156,700 (England)
DoE (1993a) <i>Housing and Construction Statistics</i>	1991-2001	147,700 (England)
PHRG (Chelmer Model) Unpublished	1991-2001	182,836 (England and Wales)

household, are still ignored. The definitions used currently for household projections are more liberal, reflecting concealed married couples and concealed lone parents (DoE, 1991a). The forecasts in the table above (Table 2) are some of the most widely used by county planning departments when, estimating future demand and calculating potential land release.

Three issues require consideration at this point.

Firstly, projections do little more than offer a possible direction for future household growth. As Shaw (1993) states;

"Perhaps the only thing that can be said with confidence about this or any other set of population projections is that they will turn out to be wrong!" p50

Tilling highlights why there are considerable differences in household projections, mainly deriving from the methodology employed by forecasters (Tilling, 1994).

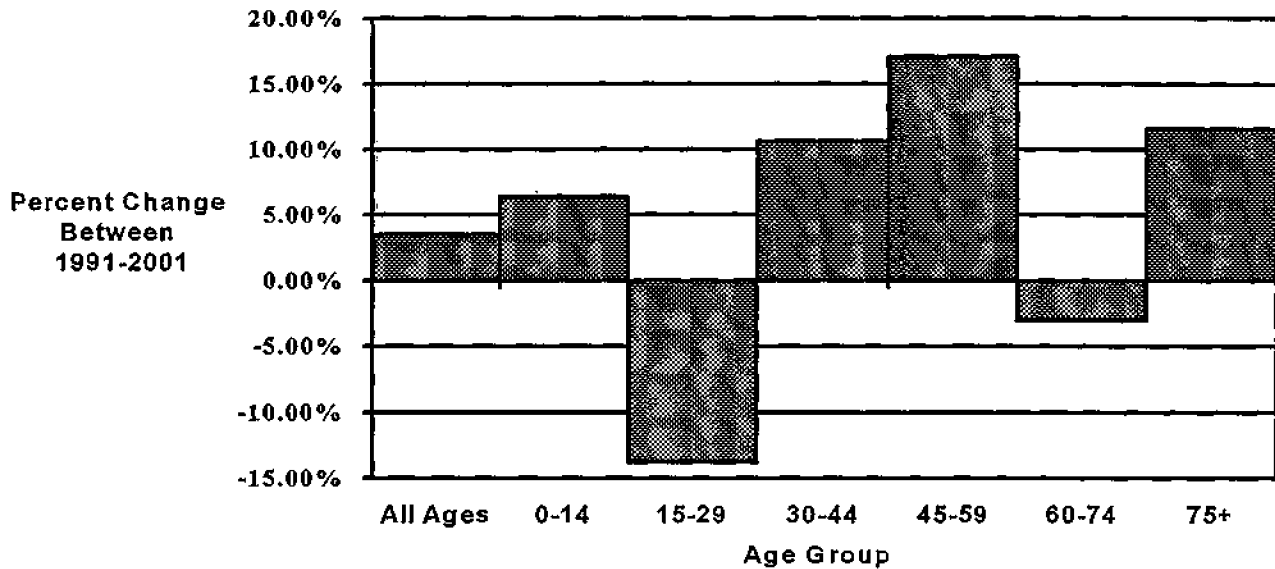
Secondly, these figures are for all households in the respective areas. Clearly it does not indicate whether the growth in households will require social housing to rent, shared ownership units or homes provided for owner occupation. This is not particularly surprising, as it is difficult to forecast the economic and personal preferences of the future households. The only assumption that could be made is with regard to housing policy concerning owner occupation, namely that the majority of future demand will be met by speculative housebuilders.

Thirdly, the OPCS have projected the UK's population for every individual year of the 1990s. Although this does not give the household data required for housing demand determination, it does suggest that there will be around 3% more people living in the UK in 2001 (OPCS, 1993). This appears to predict only an average growth in population. Household size is also forecast to change, with a move towards smaller households (King, 1991). In terms of demand for owner occupied housing, it would follow that housebuilders will have to identify their markets more thoroughly. This situation is exacerbated if population growth in the sectors that are traditional buyers of homes is examined. Figure 4 illustrates that the traditional first time buyer age group (15-29) will decline during the decade, whilst the largest increase will be in the 45-59 age category. Essentially this will mean that housebuilders will have to reappraise the housing market (in terms of the type of housing that they see themselves providing). The small population growth and changes in demographic age groups will mean that the housing suppliers cannot rely on population growth alone as a means of increasing market share. Maclennan suggests

"Relatively few builders undertake market research and there is some evidence, that in consequence building is orientated to less risky and more obvious or certain sectors of the market" Pg.200 (Donnison and Maclennan, 1991)

It has been argued that this reduction in the number of first-time buyers will be offset by a growth in household formation rates (Thomas, 1994). Yet it does not detract from the fact that market identification will have to increase in importance if the housebuilder is to prepare the right product.

Figure 4 Population Changes in Age Groups



Source: *Table 7.2, OPCS, 1993*

The 75+ age group may find its housing history “reconnect” and supporting the younger age groups through inheritance, which may increase the disposable income of certain groups, particularly the 30-44 and 45-59 groups. The issue of housing inheritance suggests not only extra finances being available, but also an increase in the housing stock. This latter point is due to older households releasing properties, either through illness, infirmity or death. Clearly throughout the 1990s this is likely to occur on an expanding scale. Hamnett, et al, suggest that between 188,000 and 207,000 dwellings may be released annually throughout the decade (Hamnett, et al, 1991, Table 4.5).

If land purchase by housebuilding companies has been undertaken to reflect past trends, there may be an expectation that the demand may not be as great as anticipated for the type of property that can be constructed on the land. For instance the housebuilders landbank may have a large proportion of sites situated in inner area, “brownfield” locations. This may have been suitable in the past for first time buyer properties, but the age group which would appear to be most likely to increase, may be looking for larger

“executive” or retirement-type properties. It would appear that this may result in certain sections of the owner occupied market becoming constrained, whilst other sections find they have little demand.

Conclusion

This paper has attempted to examine the highly fragmented and complex economic and social system that is known as the housing market. The complexity of the market is evident from the difficulties that arise when trying to define what, within the context of housing, a market is. There are essentially three different dimensions to a housing market. These are in terms of location, house type and house tenure. This paper has highlighted how a market which would appear to be neatly defined by one of these three approaches can become indistinct at the margins. This suggests a fluid market, both within and across the market categorisations, as would-be households can choose other tenures, house types or locations if conditions are such. The housing market can therefore be perceived to be a layered entity, where markets interlace and connect at their interface with other markets.

Over and above these practical descriptions of housing markets, there is the economic perspective. This views the housing market as a means through which supply and demand interact and facilitate exchange, yet even in this respect the housing market is different from any other economic market. For instance some housing is supplied in response to need rather than demand. This difference is essentially the distinction between social housing for rent and open market housing for owner occupation. It is this definition of the market which, although complex, offers the most focused examination of the interplay between housing supply, in the form of new houses, and demand as highlighted by household projections.

This paper has attempted to examine the interplay which exists in the housing market, with particular emphasis on the market for owner occupied homes. This has been illustrated by the development of two models, which have shown that it is exceptionally difficult to disentangle one part of the market from the others, due to the high degree of integration and connection. The first model is based upon the planning “pipeline” view of land supply. It suggests housing supply to be governed by a number of “valves”. The most important of these is governed by economic and political factors (the “eco-political regulator”). Once the favoured agency of supply has been decided upon, there are various stages at an individual

district or development level, at which supply can be halted, or in some cases redirected to a different pipeline.

The second model highlights the sources of demand and how it is met by supply. It is clear that there is a high degree of “recycling” of homes through second hand transfers, and, therefore, new supply into the housing market at any one time is relatively small. This is the case for owner occupied properties, where currently second hand sales in the market outnumber new sales, by around 9 to 1 (Author’s analysis of Table 5, *Housing Finance*, November 1994). Due to the small number of homes that are constructed for social housing this sector is dominated by second hand sales to an even greater extent than owner occupied units, in an estimated ratio of around 30 to 1 (Author’s analysis of unpublished Chartered Institute of Housing Data).

Throughout the 1980s, both the regulators of supply, (government policy) and that of demand (economic growth) has meant that owner occupation has been the favoured tenure. For instance, supply has been affected by government policy which has greatly limited public spending and the ability, particularly for local authorities, to build homes. Demand, on the other hand, has favoured owner occupation due to a mixture of economic circumstances (real wage rises, access to finance, etc.) favourable government policies and growth in number of households coupled with a lack of alternative housing tenures. Problems have only started to become apparent when one of the “valves” that of economic control has influenced demand away from owner occupation whilst, the government has still been promoting the tenure.

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