

SA 422 Housing Economics and Finance
2008/2009

Finance Lectures
Lecture 1: Introduction

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Lectures / classes

- 4 Lectures: overview of finance systems, instruments, strengths & weaknesses
- Focus on principles + some reference to UK examples
- Classes (this term): two pieces of written work expected from everyone + discussion in class

Texts

- Gibb et al *Housing Finance in the UK* (1991)
- Hills J *Housing* in Glennester & Hills *The state of welfare* (1999); *Unravelling Housing Finance* (1991); *Ends and Means* (2007)
- Peter King *Understanding Housing Finance* (2001)
- Michael Oxley *Economics, Planning and Housing* (2004)
- Steve Wilcox *Housing Finance Review* (2004 -) (www.ukhousingreview.org.uk)
- David Garnett *Housing Finance* (2005)

Journals etc.

- *Housing Studies*
- *Urban Studies*
- *ROOF*
- *Inside Housing*

Web links

- www.jrf.org.uk - excellent starting point
- www.odpm.gov.uk - for supply-side policies
- www.parliament.uk - look for Select Committees on *Office of the Deputy Prime Minister* and *Work & Pensions*; & the *Library*
- www.shelter.org.uk; www.cih.org.uk; www.housing.org.uk; - less focussed

Housing finance systems

- Bridge between market price and weekly / monthly household income
- Address market failures
- “A decent home for everyone at a price they can afford ...”

Cost of providing housing

- = On-going management & maintenance
- + long term repair
- + cost of capital

Where this cost cannot be afforded,
housing finance systems bridge the gap

Other reasons for intervention

- Redistribution
- Equity between tenures
- Minimum standards (merit good)
- Externalities
- Non-elastic supply
- Infrequent transactions / information failures

Key problems in defining ...

- **Affordability:** e.g. what %age of household income "should" be spent on housing?
- **Physical standards, location:** e.g. why should low income people live in city centres?
- **Eligibility at point of access / subsequently:** e.g. how to withdraw subsidy when household wealth increases

Models of intervention

<i>For example</i>	Supply side (housing)	Demand side (households)
Capital	Capital grants to landlords	Interest-free loans
Revenue	Payments to landlords if rents < costs	Housing-related income support

Demand side subsidies

- Increase incomes. Impact depends on income elasticity of demand for housing then price elasticity of supply
- Subsidise consumption (as above but tie additional income to housing consumption)
- Make credit cheaper
- Address non-economic restraints (knowledge, capacity)

From Oxley (2004)

Supply side subsidies

- Without price and allocation conditions, impact depends on price elasticity of demand
- Generally provided with price/output conditions, and possibly allocation conditions
- Grants, tax reductions for providers, also use of land use planning framework

From Oxley (2004)

Advantages as instruments

Capital subsidies: risk is transferred;
simpler

Revenue subsidies: adjustable and
allows control

Landlords: boost supply; links to other
interventions

Households: allows choice

Disadvantages as instruments

Capital subsidies: information imbalance;
difficult to adjust

Revenue subsidies: complex, 'Dirigiste'
and risk remains with State

Landlords: difficult to target

Households: administrative burden
