

## **I ran away to join a Wohnungsgenossenschaft in Neukoelln: *Deflating the Bubble.***

As every good business person knows, the secret of a healthy business lies in keeping costs down at the same time as maintaining product quality. For a number of reasons this is exactly the opposite of what has been happening in the UK housing market in recent years, where quality has largely been sacrificed in favour of the whims of a short-term, 'fast-buck' market.

A lack of investment in new affordable homes together with enticement to speculate in housing as a commodity rather than as a necessity, has not only resulted in many borrowing 'to the hilt' just to keep a roof over their heads but severe pressure on rental prices, a lack of investment in the skills and technology that we need to produce affordable quality housing for the future and last but not least a downgrade of the UK economy which has been mortgaged to pay for our expensive homes.

The speculative market has left a large proportion of individual home owners and the UK economy teetering on the edge of a deep financial precipice into which all could potentially fall with a sudden rise in interest rates. This situation is particularly severe in London where international speculators and those looking for a safe haven for money accrued as part of global financial 'dealings' have pushed the top end of the market through the stratosphere, dragging everybody else behind them.

London house prices have pushed the cost of London and UK living up and created a vicious price circle. Although London wages are now on average significantly higher than elsewhere in the country, this figure is skewed by the salaries of a small proportion of high earners at the top of the income scale. House and home rental prices equate to the ability to pay of high earners but not most average people who are still not able to buy or increasingly to even rent a decent home. A lack of regulation of the rental market also means that the quality of private rental accommodation (which forms the majority of rental property) is poor, in terms of condition, size and energy performance.

Key workers are particularly hard hit and it is now almost impossible for them to live in zones one or two in central London. This has the knock-on effect of them spending more time travelling to work which places stress on an already over-strained transport system and the quality of their lives.

In comparison to most other European and world capitals, London is expensive. A comparison with rental prices in Berlin, (where there are at least some mechanisms to control rent prices, and property is sold and rented according to size in square meters and not only according to post-code whim), shows London rental prices as being up to five times the price of those in Berlin. But average wages in London and Berlin are actually quite similar. This means that the 'hoi polloi' renting and buying houses in London have less expendable cash to spend in the real economy than their German counterparts. This puts pressure on businesses in London, especially in the outskirts where poorer people live, since there is less money to spend in shops, restaurants and leisure. In the worst case scenarios this results in blighted and neglected high streets and business closures.

The lure of apparently high London wages in comparison to the rest of the UK and the extreme centralisation of the UK economy means that more people want to work in London than the city can comfortably sustain. This lure combined with a lack of alternatives to London in terms of work and quality of life elsewhere in the UK and the fact that people are wedded to the speculative potential of 'earnings' from large figure house prices, stops many who would otherwise leave from leaving London. Thus the vicious circle continues and pressure on the housing market is exacerbated.

So what is to be done? How do we break the circle without completely crashing the economy? It is not likely that there will be any sympathetic European bailouts here!

First and foremost we need to reduce the pressure and stop house prices rising further, we need to encourage people to leave London, but this has to be at the promise of a better quality of life elsewhere in the UK or EU. Put simply, the UK needs to stop being so London centric.

There are many areas of the UK (and the EU) where house prices are low in comparison to London at the same time as there being high availability of accommodation. Some of these areas even exist within South-East and Central England within 'close' proximity to London. However these areas often correspond to zones where there is currently a lack of work and communication infrastructure together with few rewards in terms of quality of life e.g. a lack of cultural and leisure facilities.

The UK government has currently noted that these areas exist but instead of trying to encourage creativity and entrepreneurship in these zones by making and advertising them as attractive to social change agents such as artists and pioneer 'start-up' businesses, is proposing to squeeze-force London and South-East England unemployed and low waged people into them. These areas often already have high numbers of low waged and unemployed people therefore an influx of more will potentially only exaggerate a depressed situation and create social underclass ghettos.

Since the introduction of fast broadband services, it is entirely possible for many businesses to locate where they want, as long as they have access to this, the right people, affordable facilities and importantly affordable physical communication infrastructure such as functioning railways. Given the right investment and support, UK railways could alleviate pressure on our road transport networks and the centralised economy and help to create a greener less carbon intensive Britain. However the British rail transport system is currently one of the most expensive in Europe since it is 'in hoc' to a myriad of small organisations all competing against each other to make a 'fast-buck'. Privatisation of British railways was a bad move and needs to be reversed, thus cutting out the many 'middle men' and reducing costs. How best to do this does however need to be discussed.

The heart of UK rail systems is in the Midlands, coincidentally an area of current industrial decline. But stop, it also has quite a lot of cheap housing in the more depressed areas and still retains some of the engineering skills base and work force that could be employed in the manufacture of new green technologies such as wind turbines and factory produced building and housing products, which could be used to regenerate our housing stock. If only the government would incentivise and support the development of these industries, especially through provision of new skills training in green technologies? This needs to be provided for all levels of the workforce from managers down thus also potentially providing an alternative to Merchant Banking and the draw of the City of London.

The Midlands is not alone in its potential capacity to support new 'green infrastructure' manufacturing industries. Wales and the South Coast also have enormous potential and being close to the sea (hold on here, isn't the whole of Britain close to the sea?) are in areas with huge natural latent energy resources. So why can't UK PLC see the potential? If it is a problem with knowledge and know-how, then there is the possibility to ask for the necessary support from European friends who already have expertise in and the ability to help with the development of such infrastructure? So why is the government currently going 'cap-in-hand' to Chinese banks for money for the development of 'dead-tech' facilities which nobody else will lend against? And at the expense of the development of a multitude of new jobs, a more secure energy supply, a low carbon Britain and not to mention the potential to help reduce London house prices by providing good opportunities outside of London?

London house prices are in a bubble, we need to deflate the bubble without causing it to suddenly burst. I have briefly described some of the potential to reduce the pressure on London housing by getting people to move away from the capital, but we need to look at London too. One of the first things that should be introduced is better regulation of quality and a cap on prices in the private rental market, but also re-thinking some of the ways we live and starting to think less about owner occupation as the housing Nirvana.

To do this I am going to take you back to Berlin. Nineteenth Century Berlin had severe housing problems with many living in cramped, expensive and poor quality housing. In 1867 laws were passed to allow people to set up their own 'Wohnungsbaugenossenschaften' or resident owned housing communities with controlled standards and low rents. These communities developed further into the twentieth and twenty-first centuries and there are now over 2000 throughout Germany with more than two million residents. We need to look at how we can develop similar stable homes for people in London and other UK cities. Communities in conjunction with banks and developers could do this and provide long term affordable accommodation. In the case of developers this would provide a sustainable income stream, rather than immediately selling off new build homes. This type of thinking is beginning to be applied elsewhere in industry with companies such as Rolls Royce leasing their jet engines on maintenance contracts. There is clearly a market for long-term good quality affordable rental accommodation.

Another suggestion is slightly more radical and contrary to current UK culture in regards to home ownership. This is to incentivise those who currently have mortgages and equity in their homes and who need to re-mortgage to effectively sell their property back to the banks/building societies at original purchase price plus the cost of a 'green' renovation for their home together with a retirement fund that could be invested in new homes and green industries. They would then rent their homes back from the banks/building societies on a fixed rate permanent basis and provide the banks with permanent assets. The banks would then become building societies.

This would be a huge cultural shift and mean the loss of potential equity accrued in a home for retirement, but there is the risk of losing this anyway with an over-inflated housing market. This suggestion could stabilise this risk and would provide the home-owners (now tenants) with long term cost security, lower energy bills and therefore potentially more cash to spend in the wider economy and to invest elsewhere in the growth of green manufacturing, energy supplies and new housing. Of course exact details would have to be worked out, but we should at least be having discussions about this type of idea. The housing bubble cannot keep on growing or all will end in tears.

I for one have just sold my flat in London and moved to Neukoelln, an up and coming area of Berlin where I am researching future possibilities for a better quality and less expensive life.