

# Factors which influence the demand of housing



There are many factors which has adverse effect on demand of housing some are illustrated below:

**Price:** The fluctuation in prices influences the demand of housing. Suppose, In future if the price of houses is going to rise then people rush in the market to buy more before the prices goes up. So, the demand of housing increases if the price is going up and the demand of housing decreases if price is going low.

**Preference/ Taste:** The taste and preference also influence on the demand of housing. Different people have different choices. Some of the people want to live in city, some people wants to live in village. Hence, if more people want to live in city then the demand of housing increases in city and if more people wants to live in village then the demand of housing increases in village. Thus, in this way the housing of demand is influenced according to taste or preference of the people.

**Economic Growth:** Demand of housing is also dependent on income of the people. So, if the economic growth is higher and incomes of the people rise then they will be able to spend their money on housing which increases the demand of housing and prices are pushed up. As demand of housing is frequently noted to be income elastic.

**Unemployment:** Unemployment is directly related to economic growth. It is clear that when unemployment rises there is less probability of people buying a house. Thus, demand of housing decreases with increase in unemployment.

**Mortgages:** Most of the people in UK are dependent on getting a huge mortgage up to 95% of house value. If there is a decrease in mortgages then demand will fall. E. g. since credit crisis availability of cheap 95% mortgages has declined. The demand of Banks has increased and they are demanding bigger deposits so that many first time buyers don't have, therefore demand for housing has fallen.

**Income and affordability:** Affordability is the ratio of house price to income. So if affordability increases then demand of housing also increases, however it depends on many other factors. For example: in present context housing affordability is progressing because prices are going down but people don't have interest or they can't buy the house.

**Distribution of income:** The distribution of income also affects the demand in housing. If National Insurance were redistributed from the poor people to richer then the demand for luxury goods would increase i. e. the demand of housing rises. At the same time, as the poor got poorer they might have to turn to buy inferior goods, which decreases the demand.

**Excess demand:** Excess demand is created when the price is set below the equilibrium price. It is a situation in which the demand for a product in the market is greater than supply. The price of product rises due to excess demand.

In the above figure along the x-axis we are taking quantity and along the y-axis we are taking price. The line D is demand curve and S is supply curve. We can see that there are three stages in the figure i. e. surplus, shortage and market equilibrium. Surplus is the situation in which quantity of supply is

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more than quantity of demand. Similarly, Shortage is the situation in which quantity of demand is more than quantity of supply. Market equilibrium is the situation in which market is clear.

Now we are talking about excess demand of housing in London. In this condition the quantity of house demanded by the people at the price  $P_1$  is  $Q_2$ . On the other hand, the quantity of houses that suppliers are willing to produce at the same price  $P_1$  is  $Q_1$ . Hence, the quantities of houses that are produced by the suppliers are too few to satisfy the needs and wants i. e. demand of the consumers. However, as consumers have to compete with one other to buy the houses at this price  $P_1$ , the quantity of demand increases. According to law of demand " If quantity demand increases than price will go up". This will push the price of the houses up and according to law of supply " If price increases than quantity of supply goes up". In this situation suppliers want to supply more houses and which bring the price closer to its equilibrium.

The demand of housing in South East England is more than supply. Quantity of demand is more than supply which leads market towards shortage. So, to get rid of this excess demand either we should shift demand curve into right side or we should shift supply curve towards left side.

The two ways in which the government can help to satisfy or diminish the excess demand for houses in South East of England are:

### **Increase tax and rise in Interest rates:**

If the government increases the taxes in housing, it will definitely raise the price of houses. The demand of housing will decrease because the people

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may not be able to afford the price. Hence, increase taxes will decrease demand which will reduce the shortage. Similarly, if the government changes the interest rate it will also affect demand of housing. If the government rises the interest rate then the people don't want to take loans from the banks because interest rate is too high to pay the loans back in order to buy new houses. Thus, the people stop purchasing houses, which will diminish excess demand of housing. Similarly, when interest rates are low people don't need to spend their money on bank payment by which people have more disposable income to put towards the things that they want to purchase, for example: Houses, vehicle, land etc. The people will start purchasing the house and there will be again excess demand of housing. Hence, Government should increase tax and raise interest rates in order to diminish excess demand of housing.

### **Subsidies housing:**

The other way to diminish excess demand is shifting supply curve towards right side. As, we know there is excess demand of housing in South East London. If quantity of demand is more and supply is less than there will be shortage in the market. Due to this shortage, the price of houses goes up. The rising houses price means that many people who are just starting work or starting new family life find difficult to get a house because the price of the houses are raised and there is not much low cost houses available. Some councils have granted planning permission for new housing on the understanding that it is offered for sale for local people only and not at prices above a certain limit. Others are looking for a public subsidy to ensure that

low cost housing is made available for those that need it. Hence, subsidies housing also diminish the demand of housing.

### **Figure: Shifting supply curve towards right**

In the given figure we have taken Quantity in x-axis and price in Y= axis.

Demand curve is denoted by D and Supply curve is denoted by S. If we shift supply curve to right side than P1 will be the price and Q1 will be the quantity. From the figure it is clear that if we shift supply curve to right side than price of the house will decrease and quantity will increase. Thus, in the situation of excess demand, increase in quantity of supply will be more which will reduce shortage in the market.