evidence BRIEFING

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HIGHLIGHTING RESEARCH FINDINGS AND THEIR RELEVANCE IN KEY POLICY AREAS

Make room: the need for housing space

Less restrictive land allocation responsive to prices, more local incentives and a focus on housing space could reform the current planning policy.

British land use regulation has largely remained unchanged since the 1947 Town and Country Planning Act, which had 'urban containment' as a central aim – a policy most obviously demonstrated with the introduction of greenbelts in 1955. Generally the planning system focuses on the amount of land taken up by development – in effect rationing the supply of space for development. Land is released not on the basis of demand, but on the basis of projections of household numbers. However, the most important driver of housing demand is rising incomes, not the amount of households.

Researchers from the ESRC-funded Spatial Economics Research Centre (SERC) have explored the effects of British planning policy in the book *Urban Economics and Urban Policy: Challenging Conventional Policy Wisdom*. They argue that there are two fundamental economic problems with the current system: a damaging restriction on the supply of space - most seriously space for housing - and an economically inefficient use of land.

Adding to this problem of space rationing is the British model of 'development control'. Every new development, including changes of use, needs separate permission from local planning committees. However, planning committees frequently make decisions which conflict with the advice of their planning staff or with local plans.

In continental Europe or the United States development is regulated through a rule-based system: new development can go ahead, as long as it conforms to local plans and building regulations adopted by the local community following national guidelines. British 'development control' creates confrontation, high transaction costs and uncertainty in decision-making, while rule-based systems minimise transactions costs and create more certainty for developers.

This, together with the restrictive land supply in the UK, has made the supply of housing extremely unresponsive to prices. Over time houses and housing land have turned into investment assets, to hold in the expectation of future price rises, rather than homes in which to live or a necessary input into providing houses. Discounting inflation, house prices have gone up fivefold since 1955 – but the price of the land needed to put houses on has increased 15-fold over the same period.

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Driving this is the premium we put on space. As people's incomes rise, so they seek to buy more space to live in – inside and outside the house. If we continue to get richer as a society while housing land is severely restricted, the real price of houses will inevitably go on rising, the market will become ever more volatile as short-term changes in demand feeds directly into price changes, houses will become less affordable and the wealth divide between the housing haves and have-nots will get more corrosive.

Key findings

- British planning policy is focused on constraining land supply - indirectly restricting the supply of housing. This, together with its lack of clear rules governing development decisions, sets it apart from most other OECD countries' systems of land use control.
- The restrictive policy towards new developments means that housing supply has become almost completely non-responsive to changes in house prices. The lack of supply and its insensitivity to demand has produced worsening affordability and more volatile house prices.
- The main driver of increased housing demand has not been an increase in households, but an increase in incomes. With more money people want to buy more housing and garden space - but greenbelts were established when real incomes were less than one third their current level and car ownership ten times as uncommon.
- A planning system with strong local control gives voice to those who bear the highly localised costs of development, but shuts out the potential beneficiaries. Despite the New Homes Bonus we still lack incentives to ease the way for locals to welcome residential development.
- The highly centralised taxation regime offers no incentive to local authorities to grant new developments, as they are required to provide services for new residents but receive almost no tax revenues in return.
- Using the politically charged and confrontational process of 'development control' instead of rules to make decisions imposes substantial but hard to measure costs, and increases the risk attached to development. This makes the supply of new houses even more unresponsive to prices.

Policy relevance and implications

- Significant and transparent tax incentives for local authorities should be introduced to encourage them to be less resistant to new developments.
- Price signals (mainly the difference in price for land in its existing use compared to the proposed alternative) should provide a presumption in favour of proposed development, unless the wider environmental or amenity values of the land justify keeping it in its existing use.
- There needs to be a way of providing compensation for those who lose out from development - for instance a wholehearted adoption of impact fees together with abandoning 'Section 106 Agreements' and the Community Infrastructure Charge.
- A planning system encouraging stable house prices will need to shift focus to the projected future demand for housing space rather than household growth, in order to decide how much land to release for development.
- In the longer term the UK system of 'development control' (requiring planning permission in each individual case) should be replaced by a rule-based system (where development can go ahead if it conforms to guidelines for the type of site).

FOR MORE INFORMATION

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