

YES IN MY BACK YARD

HOW TO END THE HOUSING CRISIS, BOOST THE ECONOMY AND WIN MORE VOTES

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London YIMBY

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Executive Summary

- It has become widely accepted, including by the government, that the UK is in the midst of a “housing crisis”, where prices and rents have rocketed in key locations.
- There are a range of policies that would solve this, and many of them are well known. But none have been implemented because they have not been able to generate support from existing homeowners and the residents of areas that would see increased building.
- We propose three policies that would hand power back to residents; ways of solving the housing crisis that will also win political parties votes. Each would make a huge difference alone; together they could have a transformative effect on the housing situation in Britain:
 1. Allowing individual streets to vote on giving themselves permitted development rights, to build upwards to a maximum of six storeys and take up more of their plots.
 2. Allowing local parishes to ‘green’ their green belts, by developing ugly or low amenity sections of green belt, and

getting other benefits for the community in turn.

3. Devolving some planning laws to the new city-region mayors including the Mayor of London. Cities could then decide for themselves if they want to expand and grow and permit extra housing, or maintain their current size and character.
- Not only do young tenants and aspirant homeowners stand to benefit from a building boom that delivers more housing, but the economy could get a major jolt at a time of slow growth and difficult productivity.
 - Evidence suggests that GDP per capita would be 30% higher—we would produce and earn nearly a third more every year—in just 15 years if we built enough homes in the right places. That's £10,000 extra on the average household income.
 - Bold politicians can solve the problem if they are willing to think big and propose policies that make reform work for everyone. Reforms that make most voters worse off have little chance of happening.

1. Introduction

The challenge is not how to fix the housing crisis: there are many ways to get more homes built. The challenge is how to win more votes by doing it.

There are answers that would:

- promote local decision-making
- win votes for the government that enacts them
- boost economic growth
- reduce inequality while improving social mobility
- make our cities more attractive and liveable, and
- boost government revenues without incurring significant expense or increasing tax rates.

What is London YIMBY?

London YIMBY is a non-partisan campaign to end the housing crisis by getting more decent homes built. It is allied with YIMBY (Yes-In-My-Back-Yard, opposite of NIMBY) campaigns in other countries such as Sweden and the US that have similar but less extreme problems. London YIMBY's team have backgrounds in technology, law, finance and economics.

Why do we have a housing crisis?

We have a housing crisis because no one has come up with a solution that is likely to get adopted by a politician with power. That is the only way to get real action.



A much smaller London in 1844, with the first railway stations

2. Getting neighbours to vote for more housing

In many places, including the UK, homeowners are a majority of the people who actually vote. If they don't like more housing, they will block it.¹ Since 1947, when we began to require permission for nearly everything done with a piece of land, the only way to improve housing supply is with reforms that at least some homeowners will choose to vote for.

Almost every housing system in the world has failed the simple test of how to get homeowners and other neighbours to vote for more housing.² How badly have they failed?

1 Homeowners care far more than most other people because so much of their net worth is tied up in the value of their home. Prof. David Schleicher of Yale Law School has explained how Mancur Olson's analysis about collective action applies to land use regulation. See, for example, *City Unplanning*, *Yale Law Journal*, Vol. 122, No. 7, pp. 1670-1737, May 2013, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1990353

2 Residents with other kinds of tenure – council and housing association tenants, for example – may be almost as unconcerned as homeowners about the general level of private market rents, and vote similarly to homeowners on some topics, although they often have a more nuanced view. Any well-designed reform must of course take all interests into account.

One hundred years ago, a car cost nearly the same as a house. Since then the car industry has made astonishing progress. The supply of housing has not. Terraced houses in the London area could be bought for £395 in the mid-1930s when average earnings were about £165 per year.³

There is no technological reason why homes cannot be as affordable as cars again, so long as we can make them attractive enough. Unlike cars, homes do not even have to be able to accelerate and brake hard without falling apart. We list the problems of the current system in Sections 3 and 5.

History shows us that the future of cities is one of increasing change. A well-functioning planning system must enable change gracefully and as rapidly as needed while protecting those affected.

THE EASIEST WAY TO IMPROVE THE SYSTEM

The problem is outdated law that fails to achieve most of its aims. Some small but powerful amendments are needed to fix it.

Laws about land in cities should create a process for intelligent and beautiful growth with consent, not pickle cities in aspic while permitting ugly buildings. A planning system incapable of letting cities improve and change is a disaster waiting to happen. It should not take a 30% impairment of GDP before the problem gets real action.

³ See Nicholas Craft's article from May 2013 <http://voxeu.org/article/escaping-liquidity-traps-lessons-uk-s-1930s-escape>

As societies get wealthier, people want bigger homes. Failure to build enough homes causes squeezing out that will result in inequality, then ultimately rationing or revolution.

Tenants suffer from insecurity and high rents. Homeowners are unhappy with ugly developments, and worry about how their children and grandchildren will afford housing. Planners are frustrated with a lack of resources and with criticism of a system that, in restricting development, is doing just what voters seem to want.

For thirty years economists have complained about regulation without solving the political problems.⁴ Planners have suffered political constraints without worrying too much about economics or realising that asking different questions in a different way would help with those political problems. That is where we can help.

It is time for solutions that are both effective and politically achievable. This means reforms at least some homeowners can vote for, because they are a majority of voters. Astonishingly few reform proposals take that into account.⁵

4 Technically, the collective action problems. As we show in Section 6, most reform proposals also satisfy themselves with Kaldor-Hicks rather than Pareto improvements, often to the detriment of the loudest voters who most concern politicians when evaluating reforms.

5 Many of the few that do are from an economist-lawyer with an interest in politics: Prof. David Schleicher at Yale Law School. For an introduction to his perspective, see Schleicher, David, *Local Government Law's "Law and _____" Problem* (2013), Faculty Scholarship Series, Paper 4961, http://digitalcommons.law.yale.edu/fss_papers/4961. There is extensive US research on the welfare losses caused by poorly-designed land use laws. See, for example, the works of Prof. Lee Anne Fennell of the University of Chicago Law School and Prof. Michael Heller of Columbia Law School. Surprisingly, we have found no paper applying their work in a UK context.

We do not pretend to have a final answer. To get the best possible solutions (which may be different over time, as technology and the world change), ideally we would allow thousands of reforms (including total change of the planning laws themselves) at very local levels, to see what works best.⁶

We present below the three best solutions that we have come across. We are putting them out for discussion. We welcome constructive suggestions for amendment or replacement, and suggestions to help with other (non-planning) barriers to getting more homes built.



⁶ Technology companies do these sorts of mini-experiments all the time. When people's homes are at stake, it must be done much more carefully. There is no reason why radical devolution of planning law could not be coupled with super-majority voting thresholds for change, for example.

3. The opportunity

UK GDP per head would probably be 25-30% higher with better laws on land use.⁷ Our industry would be far more productive and competitive.

Allowing more housebuilding would massively boost jobs, GDP, and government revenues, while increasing social mobility, helping those who are struggling to manage, and reducing inequality.

The real challenge is how to do it in a vote-winning way.

Key facts to consider:

- London is the most expensive major city in the world for renting or buying a home, per square foot.⁸ Other major cities in the UK

⁷ We discuss at <https://www.londonyimby.org/blog/2016/12/10/the-uks-hidden-handcuffs> but briefly: Hsieh and Moretti in 2015 estimated a cumulative loss of 9.5-13.5% of GDP for the United States (Why Do Cities Matter? Local Growth and Aggregate Growth, April 2005, http://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1045&context=housing_law_and_policy and the distortion in the UK is approximately three times greater. Their latest paper estimates that restrictions on housing supply reduced US growth between 1964 and 2009 by 50%: <https://faculty.chicagobooth.edu/chang-tai.hsieh/research/growth.pdf>.

⁸ Christian Hilber, LSE, UK Housing and Planning Policies: the evidence from economic research, Table 1. Available at <http://eprints.lse.ac.uk/61745/>

are also extremely expensive by world standards. We do not have enough homes (or other buildings), particularly where the best job markets are.

- We have plenty of space for more well-designed homes that would make our cities both more attractive and more liveable.
- We can do much better without significant government spending: house prices near places with the best job opportunities are many times the cost of building those houses, because of artificial scarcity caused by the current system.
- Outcomes of the current system destroy jobs, opportunities and lives.
- The current issue of high rents could be addressed by allowing much more homebuilding. The easiest way to get that is to fix the planning system, as we explain below.
- Britain's current planning system is a patchwork of amendments to an old law (the Town and Country Planning Act 1947). It has become so difficult that small builders and self-build have nearly been driven from the market, leaving mainly large developers with often mediocre schemes, released over long periods. We previously built many more decent homes. (Section 5)
- Billions of pounds are spent on armies of planning lawyers and consultants without spending enough on local communities. Planners do not have enough resources to meet all the demands they face.
- Too many of the few homes that do get built are unattractive and disliked by locals.

The good news is that we do not have to become the best in the world at housing. We could achieve an incredible improvement just by getting to average.

How do we get many more beautiful, well-designed homes built where local people actually want them?

4. Three suggestions

We have reviewed hundreds of reform proposals and we believe most of them, unless they are not very effective, are unlikely to happen in this country in the near term. Details can be found in the Appendix.

We think solutions are most likely to last⁹ if they restore power to small communities, as we explain in section 6. That gracefully ends the cartel by allowing communities to choose to allow more development if they want if their concerns about good design, congestion, infrastructure, services, shadows, and other things are met.¹⁰ That will also relieve some strain on overworked planning departments by

⁹ Unless they create a voting majority of tenants paying market rents who will continue to vote for more housebuilding, as can be seen in Houston; although Houston has various unhelpful laws reducing walkability and causing needless sprawl.

¹⁰ Land use regulations can be seen as a regulatory cartel. Landowners and homeowners vote to restrict the supply of homes and raise their own home prices. The arrangement is unlikely to be permanently ended unless homeowners are a minority of voters or a proposal is made that at least some homeowners support. It is a particularly tough example of a Tullock transitional gains trap, because the restriction benefits a voting majority. The Transitional Gains Trap, Gordon Tullock, *The Bell Journal of Economics*, Vol. 6, No. 2 (Autumn, 1975), pp. 671-678.

allowing developments with community support to go ahead, giving planners more time for masterplanning and infrastructure.

These are the three best proposals we have seen, in order of how effective we think they are likely to be.

1. BETTER STREETS

How can we use the fact that new low- or mid-rise development mainly affects neighbours on the same street? People are generally most affected by building work opposite or next door to them.¹¹

The easiest way is to let individual streets decide to give themselves additional rights to extend or replace existing buildings. That would, over an extended period, allow at least 5 million more homes in London alone.

Large swathes of London and other cities are covered with low-rise, often unexceptional, 20th century houses, and half of London's homes are in buildings of just one or two floors.¹² A better system would allow them to be extended or replaced with more attractive buildings, creating many more homes, if that has community support. A typical suburban plot can often easily generate a fivefold increase in dwelling space. Older buildings may also benefit from graceful extension.

¹¹ In economics terms, a single street as a whole captures much of the externalities. Create Streets has suggested higher mid-rise buildings along major roads. A potential mechanism to let that happen be found here: <http://www.createstreets.com/create-boulevards/4592858803>

¹² Mayor of London, Housing in London 2015, section 1.15, <https://www.london.gov.uk/what-we-do/housing-and-land/housing-and-land-publications/housing-london-2015>

If residents are asked whether every house on their street should be allowed to add one or two floors, the good news is they are often in favour, especially if they can pick a design code to make sure that the extensions are attractive.¹³ Every owner of a house will benefit substantially from the increased value of their property.¹⁴

The Fitzroo project involved attractive mansard roof extensions on two terraces of Victorian houses facing each other on a street. Under the current system, despite unanimity among the residents of the houses and widespread support from neighbours, it took two years and hundreds of pages of submissions to get permission.¹⁵ One individual involved described the process as a ‘nightmare’. It should have been much simpler.

The 1947 reforms were never intended to provide a mechanism for large-scale densification of low-rise streets in good condition and with fragmented ownership, for quite understandable reasons: London’s population was declining and such densification would have been uneconomic then. Things have changed, and it is time to create that mechanism.

A regime where each street can decide to give itself additional permitted development rights to extend or replace, coupled with a design code and other conditions of its own choosing such as a code

13 Private surveys carried out in the South East of England in 2016 and 2017 (with no prompting to explain the benefits to each homeowner) showed up to 53% in favour for their street, depending upon the question asked. Responses were not limited to homeowners, which would have given higher numbers in favour. Different streets will, of course, give different results.

14 It gets more complicated with a mix of tenures. The vote should be based upon upon residence and the electoral roll to ensure that everyone is fairly represented.

15 Camden planning application 2009/5151/P, in the Primrose Hill conservation area, by HTA Design LLP.

of construction practice, would be very powerful.¹⁶ There are various simple ways to amend the law to allow that.¹⁷ The rights should probably be capped at a certain height – either (say) a maximum of five or six storeys above ground, or a certain number of storeys above the highest existing buildings on the street.¹⁸

We suggest a double majority threshold: two-thirds of those voting and two-thirds of those who have lived on the street for at least three

16 Laterally and/or vertically, and/or to demolish and replace the existing dwelling. We suggest single streets should not be allowed to permit net loss of existing retail space without council approval, to minimise objections from surrounding residents.

17 It can be done in at least two ways. 1. Provisions adapting the voting for neighbourhood development orders, but with an electorate of all those on the electoral roll on the street or section of street in question. In such a case, there should also be a power of initiative by a minimum proportion or number of residents (say, 10% or 20 people), to allow proposals that would have overwhelming support of residents but are not supported by the parish council or neighbourhood forum given Olsonian problems. Express provision should be made that the vote can override the local development framework. 2. Less optimally, it can be done by legislating that a planning application covering the whole street and signed by the required number of those listed on the electoral roll for that street or section of street shall be automatically approved, with no rights of appeal. We think it would be far better for the vote to be secret, to prevent (say) landlords requiring new tenants to vote in favour. For these purposes, a square should be treated the same as a street: the important criterion is whether the houses face each other. We suggest that the Secretary of State should not have power to overrule the order, in order to minimise the risk of a toxic debate at national level. Neighbourhood areas could also be permitted to set overriding design codes (but not restrictions on bulk or massing) for their area, to ensure that different streets are harmonious, if they wish to do so.

18 Such powers should include the right to override conservation area restrictions. The most important goal of conservation areas is to preserve the quality and significance of the environment. The people living on a street are best placed to decide how to do that. Listed buildings, which are of national historic significance and are fewer, should retain the requirement for listed building consent before any building work.

years.¹⁹ That will prevent developers buying up houses and packing them with people to push through change, upsetting existing residents.

Why single streets? Crossroads are a convenient firebreak across which a development has less impact. People tend to think of houses on the same street as being related to each other when deciding where to live. The important thing about a street for these purposes is that the houses are similarly affected.²⁰

Where will that work? Probably not in historic village centres, for example. The buildings are so different from one another that it would be hard to pick a design code and permitted development right that would make sense without ruining the unspoilt historic nature that many people like. It will be much easier in suburban streets of nearly-identical houses, whether they date from the 1930s, 1960s, or 2000s.²¹

Happily, those are exactly the streets where it is best to add more housing space, because it rarely damages anything with unique

¹⁹ Homeowner associations in the US generally allow amendment of the rules by supermajority. This is seen in Lee Anne Fennell, *The Unbounded Home*, Yale University Press (2009), p. 80, footnote 41 and accompanying text. Three years would give a street plenty of time to agree a contract between a blocking minority of the residents not to allow any development, if they wish to do so.

²⁰ That reduces coordination problems.

²¹ Where a single building (for example, one that has a driveway on the same street but sits behind and is different to the main row of houses) is not in a position to benefit from the adopted additional permitted development rights, guidance should be issued to encourage planning authorities to take the new context into account when considering applications concerning that building. A house on a street might also not be able to benefit if, for example, it has already reached the maximum height or been extended as much as possible laterally. But in those circumstances it is hardly fair for that single house to be able to block all the others from doing the same.

character. There are also plenty of houses from the 1800s that could benefit from graceful mansard roof extensions like the Fitzroo project.

Many streets will not vote in favour. Residents will only vote in favour where they feel the street will be improved and where they are least likely to be upset about it.

No homeowners are forced to extend or replace their house, of course. They might have to put up with some construction work next door for a while, but they will benefit from their substantially increased house price due to the new permitted development right. If they are not happy, they can always sell the house, buy a similar one, and put the profits into a pension or save them for their children or grandchildren.

Residents in nearby streets will often see their house prices go up as a result, because of the possibility that their street will vote to do the same. That will also help to reduce complaints.

The large economic benefits to each householder make it easy to pay for more social housing: the additional stamp duty receipts generated will rapidly amount to many billions. If stamp duty is replaced with a better property tax, the increased amount of housing will also lead to increased receipts from that tax. Alternatively, the government can modify the Capital Gains Tax (CGT) regime to tax the benefits on sale to the homeowner that have arisen solely out of the increased permissions.

Why single streets?

If individual homeowners had permission to extend as much as they liked, we would clearly have many more homes. Hundreds of

thousands of homeowners would extend upwards and outwards and convert their homes into flats as we see in many parts of London today. We would see millions of extra flats, but with many negative side effects.

Individual landowners (without land use laws) are often happy to develop it themselves or to sell to someone who wishes to build a home for themselves or others. Otherwise London would never have formed from villages growing and merging, as it did. That is the way that the great estates of London developed Bloomsbury, Belgravia and Pimlico, for example.

The problem is that fragmented ownership makes it much harder to coordinate to ensure attractive designs or protection of parks and beautiful landscapes. The backlash against that led to national laws that have, sadly, led to a regulatory cartel to raise prices.

How can we get most of the supply benefits of a free-for-all, without the disadvantages, while ensuring that it makes our cities more attractive and liveable?

What about giving each pair of houses the right to opt to allow both of them to extend?²² Again, there would be a lot of building, although there would also be howls of anger from hundreds of thousands of neighbours. The same is probably true for groups of three, four or five houses.

²² As part of our suggestion, the street should have the option to require that for every pair of semi-detached houses, consents from both houses should be required before development can start. We think it should be an option, not a universal rule, or it would risk leaving unsightly near-permanent gaps for decades in streets that do not want them. The more reluctant owner already receives a large uplift in house price, and retains the protection of existing party wall legislation and rights to light.

And yet somewhere between that and the scale of a neighbourhood development order, it breaks down. There has been no wave of improvement in neighbourhood planning areas. As we explain below, they are just too big.

The Fitzroo project is a great example of why we believe allowing streets to decide what enhancements they want will allow them much more flexibility and help our cities to evolve and improve. Each house benefits from the additional permitted development. Streets are small enough and often uniform enough that conversations are easy and sensible.

Why not just have national or local government create new permitted development rights?

Why shouldn't the national or local government just create a new set of permitted development rights for the country or local area, with no design codes?

The backlash would be horrific. First, many streets will not want it, and will be upset when neighbours take advantage of it.

Second, it is almost impossible to specify rights from the top down that will suit the existing buildings on every street, not only in terms of volume but in terms of façade.

Third, every resident persuading their neighbours for a local vote is a powerful way to complete the extremely difficult task of mobilising two-thirds of the street in favour, and help those who are not in favour to realise that theirs is not the only legitimate view, minimising any backlash against the government. Explaining and persuading people is incredibly hard and expensive. Letting it happen street by street from the bottom up is much more powerful.

What about neighbours behind?

Where a street decides to allow growth, that growth may reduce sunlight to the houses and back gardens on the street behind. The effect depends on the orientation and length of the back gardens of the houses on both streets.

Most complaints about rear extension come from next door neighbours on the same street. They are most exposed and have strong reasons to ensure that the new permitted design is attractive.

However, houses behind are also increasingly affected, the closer the development is to their boundary. We expect government will want to cap any permitted rights to extend upwards at a maximum height of five or six storeys above ground or at the addition of a few storeys, at least initially. That will mitigate any loss of light.

We also suggest that building in the direction of another property not on the same street (down the back garden, for example) should be limited to, say, 25% of the distance from the current built footprint to the boundary of the property of the affected neighbour.^{23, 24, 25} We also suggest that extensions in that direction should be limited to, say, the current maximum height of the top of the roof of the current

23 As a supplement, there could be an even tighter limit than 25% and have an analogous 'update blocks' regime, where neighbours on the same block can jointly give consent to rearward but not sideways or forward extensions of their built footprint, with a design code. We are working on ideas; the long and winding nature of some blocks makes it more challenging.

24 Not including hard surfaces.

25 Only the closest neighbours will be an operative constraint, because the 25% distance will often extend beyond the boundary of the property wishing to extend.

house.^{26,27} The overall proposal would still be powerful if that 25% limit were reduced.²⁸

We also suggest a new statutory right to compensation payable by someone who develops.²⁹ It would be payable if, using the above provisions, they develop above, say, a 30 degree angle from the borders of another property not on their street.^{30,31} This would also be payable if they develop in such a way as to cause additional shadows to

26 Or parapet, if higher; the point is to exclude chimneys and aerials from consideration.

27 The affected neighbour should have the power to waive either or both restrictions in respect of their property, but the restrictions would be independent for other properties, even those not adjacent to the property being extended. The 25% restriction becomes less constraining the further away those properties are, because more of the distance between them will lie over third party property.

28 On many typical suburban plots, the total floor area could easily be increased by a factor of five through forward, sideways and vertical extension alone.

29 The right should be enforceable, if necessary, through the courts. The idea of compensating affected owners is not new to English law. The Housing, Town Planning, etc. Act of 1909 provided for compensation for the 'worsenment' of property affected by a scheme. We believe that payment of damages should be tax-free if paid in relation to a primary home under Extra-Statutory Concession D33. The right to compensation should only arise when the development happens, not when the permission is granted, but the measure of damages should be based upon the difference between the value in the absence of the permission for that specific plot only (all other things being equal), and the value immediately after the development. That may mean some homeowners are liable to pay more or less compensation depending upon who develops first. It is, of course, open to a group of homeowners to agree as between themselves to share the liability equally (or otherwise), to prevent a greater cost falling on the first few to develop.

30 We think 30 degrees strikes a reasonable balance but other numbers could make sense. 26.56 degrees would give one metre of height for every two metres from the property boundary.

31 i.e. that has not received the benefit of the additional permitted development rights.

fall on any part of that other property.³² The compensation should be paid to the affected property owner(s) (including secure tenants) for any reasonably foreseeable loss of value of their share of the affected property that is caused by development using the new street-specific permitted development rights, insofar as that development extends beyond existing rights to develop.

As well as loss of light, compensation should cover loss from any change in the appearance of the developed property, together with any effects from changes in overlooking, to the extent that the changes were not permitted outside of the new permitted development rights.

The compensation should be enforceable against the developed property in case the developer or owner becomes insolvent. That will also encourage settlement of potential claims as early as possible in the process.

Most of those claims will, in reality, be small and we expect most will be settled before construction starts. Many will be taken into account through discussion with affected neighbours, and possibly settled, before a street's proposal for new permitted development rights with accompanying design code is finished, to remove uncertainty.³³ Existing rights to light would not be affected.

32 The aim is to give compensation both for substantial change in skyline and also for overshadowing.

33 The government could make this even easier by providing an optional suggested template for the agreement of the amount of compensation payable if development goes ahead according to the specified design within a certain time limit.

We suggest setting the amount of compensation at, say, 150% of any assessed loss of market value.³⁴ No-one is being forced to use these permitted development rights, so there is strong argument for compensation to be generous to help reduce any complaints.

Change of use

The possible permitted development rights should include subdivision into flats if the street chooses. We do not suggest an option to permit other changes of use, although power could be included for future delegated legislation to give streets the option to include permission for light retail or office use, if later study shows that to be sensible.

Basements

Basements with lightwells add more housing space without affecting sunlight to the street or the long-term views of the neighbours, but digging them is often very disruptive. The Georgians and Victorians often built them on greenfield by constructing the basement at original ground level and then raising the level of the street.³⁵ It is too late for that in existing suburbia, but, if a street collectively wants to add basements, it would be a shame to rule it out, given the amount of additional housing that could be created.

We suggest the basement development rights that a street may adopt should be limited to a single floor below the existing lowest floor level of the house, coupled with strict provisions on working conditions

³⁴ Or perhaps 200%, stepping down to 150% over 10 years from the date of entry into force.

³⁵ Hermione Hobouse, Thomas Cubitt, Master Builder, 2nd Edition (1995), page 69

and indemnification of adjacent property.³⁶ Those basements should be a minimum distance away from other built property that is not on the same street.^{37,38} If householders want to go closer, they can apply for additional planning permission.³⁹ Listed building protection, rights of support, law on nuisance and protection for utilities and other infrastructure will, of course, remain.

Basements are the most challenging item to include and we particularly welcome additional suggestions. One option would be for basements to require a higher majority threshold for approval.

What about houses on street corners?

Corner houses affect adjacent properties on two streets. Houses on a property that has a boundary on two streets should therefore only benefit from the development rights of the less permissive street.^{40, 41}

To mitigate the position of the owner or secure tenant of a corner house, they should be allowed to elect not to take advantage of the new-style permitted development rights and in return have the right

³⁶ Say, 3 metres.

³⁷ Say, 2 or 3 metres, or alternatively with a smaller distance with a set of statutory provisions about shoring up. We would particularly welcome further input on this point.

³⁸ Buildings, not merely hard surfaces.

³⁹ The adjacent neighbour should also be allowed to waive the minimum distance, wholly or partially.

⁴⁰ This can be drafted to include properties with a boundary on streets in front and behind. It is better to err on the side of caution here: individual planning permission can always be granted later if the context makes sense.

⁴¹ We suggest any section of road between two crossroads should be defined as a 'street' for these purposes – but not a section interrupted by a minor road on one side, because there is no break between the houses opposite that minor road.

to compensation under the above rule.⁴² They should also be allowed to change their mind later, subject to refunding any compensation paid, with interest.⁴³ They will also retain the protection of existing party wall legislation.

This would ensure no-one's property will be significantly affected without them either benefitting through increased value of their property or receiving cash compensation, and that no-one will be required to pay compensation unless they choose to develop by exercising the new rights.

If streets are allowed to opt-in to basement rights, we would suggest an index-linked liquidated damages provision for construction inconvenience if a neighbour chooses to build next to a corner house using the new permitted development rights and the corner house owner has elected as above.⁴⁴ Listed building protection will, of course, remain.

42 With multiple tenures it may be, for example, that the freeholder does not make an election but the leaseholder of a flat not on the top floor does so. In those circumstances, the freeholder will be free to develop, subject to the terms of the lease, if both streets add permitted development rights; the leaseholder will retain right to light protection and the protections of the existing lease, and a right to compensation for the affected value of the leasehold if the adjacent neighbour develops.

43 The obligation and benefit of the refund should run with the land if a property has changed hands.

44 There is a tension between practicality and justice but it could be set at the cost of renting a replacement for the corner house for the duration of the basement works. It will very rarely be necessary to move out (and in any case the corner house could be sublet) so this will be generous.

2. LET COMMUNITIES GREEN THEIR GREEN BELT

Local authorities already have power to amend their own green belt, but neighbourhood plans cannot if the local authority has defined the green belt boundaries as a ‘strategic policy’, which they often do.⁴⁵

Why not devolve more power to de-toxify the debate at national level?

Why not allow communities to choose new garden villages if they want them, or new parks through green belt swaps?

There are small parts of the green belt that are not very attractive or of much use to anyone. Local communities should be permitted to choose to have garden villages, or more parks or better green belt instead, if they want to.

A parish or other neighbourhood planning community should be free to amend its green belt with the landowner’s consent. It should also be allowed to choose to swap an unwanted area of its current green belt in exchange for a new public park or common.

⁴⁵ For an example of a neighbourhood forum that gave up on a neighbourhood plan because it was not allowed to designate some green belt for housing, see <http://www.winsley.org.uk/archives/6342>. We are unsure that it was correctly advised. Provision by neighbourhood plans for green belt development is not expressly excluded by TCPA 1990 ss. 61K, 61J as inserted. Although the NPPF ¶184 provides that neighbourhood plans may not override ‘strategic policies’, we have seen no evidence that the green belt boundaries were a ‘strategic policy’ of the relevant local authority at that time. However, we think it would be even harder to argue that a neighbourhood plan includes power to accept green belt swaps. Neighbourhood development orders similarly do not have the power to override strategic policies (TCPA 1990 Sch. 4B para. 8(2)(e)), and the Secretary of State has power to revoke such orders (s. 61M).

As part of that, the community should have the power to select the design codes and masterplan for the released area of former green belt, should they wish to.

That will allow communities to choose to have more land that they and their children can actually use, if they want it. Meanwhile, dis-used former quarries or scrubland can be turned to better and far more attractive use.

Most communities will not want any swaps. Some, especially close to good transport links, will choose to agree with landowners to create attractive new housing in return for green space that they can actually use. The development will only go to the communities who do not object.

That may have less effect than a substantial and immediate top-down green belt review, but it will be far more acceptable to voters.

Local communities are best placed to decide what is valuable and should be protected. Areas of outstanding natural beauty and sites of special scientific interest can retain their national protection.

How would it work?

Specifically, a neighbourhood planning area should have express power, with consent of the landowner, to amend the green belt designation of a part of its area in exchange for conditions (as the area wishes) such as a landowner's commitment to:⁴⁶

- give specific land that is currently not green belt as a public common or park, or specific other land within that neighbourhood planning area to be designated as green belt;^{47 48}
- provide specified public facilities or services for a specified time or permanently;
- ensure that a specified proportion of the new housing is social or affordable housing;
- fund specific charitable, governmental, trust or non-profit bodies, or pay compensation to residents;
- establish a specific design code, masterplan and/or other building-related conditions for the de-designated land, with a commitment not to seek to override them by application to the local authority; and/or
- give shares in a 'pink planning' body or neighbourhood development company to residents.

⁴⁶ But not limited to. It is important not to be prescriptive about what a neighbourhood will find persuasive.

⁴⁷ To the local authority or another body or trust if the community prefers.

⁴⁸ Given that some communities have very limited amounts of non-green belt land that has not been built upon (much of which may be gardens), the land to be swapped should not be statutorily required to be within that neighbourhood planning area. It will be up to the local community to decide whether the location offered suits them.

How should that be done? The mechanism can easily be adapted from neighbourhood development orders.⁴⁹

The power can also be included within the neighbourhood plan but the key is to allow it to be done later in an ad hoc manner if the community wants to, without having to go through all the time-consuming and costly work to re-do the plan. Communities already have the power to grant neighbourhood development orders that go beyond the neighbourhood plan.

Because parish councillors are generally unpaid and tend to be individuals with much more spare time, they are often not fully representative of the community as a whole. We suggest a separate power of initiative for a minimum proportion or number of residents (say, 10% or 20 people), to allow proposals that would have majority support to be put to a neighbourhood vote despite Olsonian problems at parish council level.

Compensation

Again, we think it is better to be generous. People may have moved to a home, or lived there for decades, on the understanding that green belt would not be changed. No-one can be forced to develop de-designated land under this proposal. For that reason any developer of the de-designated land should be obliged to pay compensation for the

⁴⁹ We suggest the insertion of new sections in the TCPA 1990 along the lines of those governing neighbourhood development orders, with the exception that the Secretary of State should not have the power to override green belt swaps chosen by local communities. Otherwise, the whole toxic debate at national level will resurface. It should be up to the local community to decide. The electorate could be extended to include anyone not in the neighbourhood planning area but living within, say, 500 metres of the boundary of any green belt area to be undesignated.

loss of value of any homes affected by the development (including secure tenancies, and net of the value of the benefits to that householder of any services, funds or other benefits provided in return for the swap).⁵⁰ We suggest setting the compensation at, say, 150% of the assessed net loss.⁵¹ That will also encourage high-quality development and provide a strong incentive to let the local residents most affected have input into the design from the beginning.

Why will it work?

Many parishes and neighbourhood planning areas have only a few hundred residents but cover many hundreds, sometimes thousands, of hectares. The uplift in value from releasing just a single hectare of land for housing can be as much as £20 million. If that is equitably shared with a community (for, say, a new village hall, school, or whatever the community needs), it could mean a large improvement in their lives.

Allowing local communities to decide whether to accept a green belt swap to get new parkland is a simple decision that they are best qualified to make themselves. It cannot make the situation worse, or they will not vote for it. It should be up to them.

⁵⁰ For practicality there should be a distance limit: perhaps, say, up to 700 metres away from the former green belt land.

⁵¹ Or 200%, perhaps with a provision to step down over time to 150% from initial enactment of the reform.

3. DEVOLVE PLANNING LAW

Another option is to devolve enough power to amend rules on land use to city mayors. More power to a housing-minded mayor could be very powerful.

The London Mayor, for example, has significant power through the London Plan, but it is too blunt an instrument. Most of his powers are to impose things upon local authorities and residents against their wishes. He has no power, for example, to introduce either of the two regimes above to give streets and communities more say in what they want.

The London Mayor also does not have clear powers to amend green belt designations, or to create permitted development rights.⁵² Although the London population is more pro-housing than the country as a whole, we think in practice both of those are hard for a London Mayor to do, for the same reasons that they are difficult at national level. The situation for other cities varies.

It is not enough to measure the total amount of homes that a mayor might theoretically be able to ram through in the teeth of fierce opposition. The question is whether a mayor has enough power to fix the process to let improvements happen with local support.

⁵² NPPF para. 83 envisages alteration of green belt boundaries by ‘[[l]ocal planning authorities’, although the glossary defines that term to include the GLA. The Outer London Commission 7th Report argues in s. 4.86 that the Mayor may have power to amend the MGB. It is enough for our purposes to note that it would be better to give clear and express power to the Mayor, sufficiently broad enough to also allow the Mayor to delegate to local neighbourhood areas the ability to accept green belt swaps.

In an ideal world, city mayors would have the power to amend planning laws governing their city. That will allow more experimentation.

A low-risk and measured reform would be specifically to allow city mayors – and indeed, other local authorities – to decide to opt all or parts of their jurisdiction in to one or both of the two new reforms suggested above. That will allow local experimentation to be twice removed from national level, again reducing the political backlash. We think the city mayors are likely to find the street updating to be the more effective of the two, given that much of the green belts lie outside city boundaries.

What are the risks?

The above three suggestions are incremental: they allow experimentation on a local level and are not imposed on anyone by national government. People are always free to vote against any development. National protest, if any, is therefore likely to be muted. If there are unforeseen problems, they can be amended or ended before there is any national effect.

Planners will have more time to focus on masterplanning and new infrastructure if streets and communities can approve or pre-approve a significant fraction of particular new developments themselves, with the design codes and other conditions that they want. That will also reduce the incredible waste of talent, time and money on legalistic planning appeals.

5. The problem and opportunity are both huge

We would all be happier with a better system allowing many more attractive homes.

For hundreds of years the price of housing outside of city centres generally remained not much more than the cost of building it, because increasing prices were met with more building.⁵³

⁵³ For 1850-1977, see, e.g., Raymond Goldsmith (1985), *Comparative National Balance Sheets: A Study of Twenty Countries, 1688-1978*. In central locations, technology and legal limitations on heights often meant that the supply could not be increased.

The challenge is to achieve that by improving places with high-quality buildings and masterplanning where possible, without ugly sprawl, and without getting voted out of office by angry homeowners who see their house prices drop.

WE HAVE PLENTY OF SPACE FOR MORE HOMES

We can build more homes by building up in existing settlements, or outwards on greenfield, or a combination of both. Currently it is too hard for people to do either of those well, and too easy to do it badly.

The two problems are different.⁵⁴ In built-up areas, it may be years before a neighbour notices a front extension on a house on the street behind. In existing rural areas, every new building is often very much noticed because there is nothing to hide it.

The risk is that if we fix the laws on greenfield without fixing the laws on brownfield, we may end up with more sprawl than needed because we have not allowed existing cities to be enhanced as much as people would like. There is no end: demand for housing will keep going up for as long as the economy keeps growing, even if the population stays the same.

If we want to preserve the green belt, the only option is to upgrade our regulations on improving and replacing existing buildings to let people do that. Otherwise the pressure on the green belt will become irresistible.

⁵⁴ As, for example, the New Zealand Productivity Commission has pointed out: Better urban planning draft report, page 6, <http://www.productivity.govt.nz/inquiry-content/2682?stage=3>

However, you generally cannot ‘masterplan’ enhancement of existing streets in a top-down way, because it depends on births, deaths, marriages, plot assembly, chance encounters, funding, time, and many other factors.

Prof. David Schleicher at Yale Law School notes that bad regulations prevent a ‘missing middle’ of mid-rise housing where it is wanted.⁵⁵ We need to upgrade the law to allow graceful enhancement where it has support of existing residents.

Enhance existing places

Paris is often seen as one of the world’s prettiest cities but actually London’s buildings are much lower.⁵⁶

We have nearly choked off the graceful enhancement that cities have seen for thousands of years.

Ironically, at nearly the same time that green belts were created as a backlash against the endless sprawl of suburban semi-detached houses, a development control regime was put in place with no real mechanism to allow those same suburban streets to be improved at scale.

⁵⁵ David Schleicher, *How Land Use Law Impedes Transportation Innovation*, Yale University Law School, April 12, 2016, Yale Law School Public Law Research Paper No. 565, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2763696

⁵⁶ *Housing in London 2015 – The evidence base for the Mayor’s Housing Strategy*, page 20, available at https://www.london.gov.uk/sites/default/files/housing_in_london_2015_v3.pdf

The absence is understandable: the focus at the time was to create plenty of homes through new towns on greenfield sites, but that has proven very difficult politically.

That leaves a massive opportunity to improve swathes of perfectly acceptable, if unexciting, suburban semi-detached houses that have been pickled in aspic for decades, by allowing the owners to extend or convert them into (say) attractive streets of terraced homes in the local style, or attractive mansion blocks if that is what locals want.⁵⁷ A typical suburban street can easily attain a fivefold increase in total square footage while becoming more attractive, walkable and liveable.

For example, London as a whole has half as many homes per square mile as Kensington & Chelsea or Westminster, two of the prettiest boroughs!⁵⁸ We estimate that outer London alone easily has the potential for five million additional homes, over time. The facts for other UK cities are similar.

There are millions of buildings in our major cities whose owners would gladly make them bigger and better-looking if given permission to do so. We need to find a workable way to do that, because it is a gaping hole in the current system.

This is a question of improving current rules on development control. You cannot plan such densification from the top, because it depends on what individual owners want to do, on small plots. It is also incredibly complicated because of the different interests of the various neighbours.

⁵⁷ Create Streets has written at length about this: www.createstreets.com

⁵⁸ Kensington & Chelsea has less public green space than some other boroughs, but it has many gardens and much of Chelsea is very low-rise. Westminster contains Hyde Park and most of Regent's Park.

Garden cities, urban extensions and green belt

There is a growing view that some reform of green belts will be needed.⁵⁹ Green belts have succeeded in stopping the outward growth of large cities and preventing ugly urban sprawl adjacent to those cities. However, many argue they have had negative effects on social mobility, GDP, and on the countryside beyond the green belts - particularly given that attractive urban densification within cities has also been nearly halted.

Many think that it is currently far too easy to build ugly buildings on valuable, beautiful, publicly accessible greenfield land in areas that have little. We are losing parks and playing fields in cities, and swathes of countryside to development that has ‘leapfrogged’ past green belts.^{60 61} This results in long commutes causing stress, health problems, loss of family and leisure time, and damage to the environment. Self-driving vehicles and, one day perhaps, flying drone taxis will drastically increase leapfrog development if we do nothing. Is it fair or wise that the Lancashire countryside should have less protection than that of Surrey?

59 For example, the Crossrail 2 Growth Commission at page 46 noted ‘an increasing acceptance of the need for selective Green Belt review if London and the wider South East are to meet the challenges of unprecedented population and economic growth.’

60 For an example of public open space being lost to new development, see <https://www.crowdjustice.org/case/save-somers-town/>.

61 The London Playing Fields foundation estimates that 42% of adult football pitches and 28% of cricket pitches were lost between 1990 and 2016. Paper circulated at Green Belt Future seminar, London City Hall, 16 February 2017. For an example of playing fields being offered for sale as a development opportunity, see <http://www.estatesgazette.com/blogs/london-residential-research/2016/04/playing-fields-built-due-green-belt/>.

On the other hand, many believe it is far too difficult to build attractive terraces or mansion blocks on pesticide-sprayed golf courses or fields of rapeseed not accessible to the public but within easy walk of a tube station, especially if there is a way to do it that the local community can support.

Green belts, including the Metropolitan Green Belt (MGB) around London, were invented before the science of spatial and aggregation economics, and without a clear understanding of the underlying reasons for cities and how they have grown over time.

The green belt around London was originally conceived as a circular park for Londoners, to give them access to green space.⁶² However, it was set up in a form that ultimately stopped more low-cost semi-detached homes being built for lower-income Londoners.

Half of the London green belt comprises fields of rapeseed and other monocrops, sprayed with pesticides.⁶³ It was not designated for any environmental value or beauty, as the housing minister at the time stated. Much of it is not attractive or accessible to the public. Areas of outstanding natural beauty (AONBs) and of special scientific interest have their own, independent protection. Most AONBs are not green

⁶² Paul Cheshire, LSE, Are they green 'belts' by accident?, <http://spatial-economics.blogspot.co.uk/2015/05/are-they-green-belts-by-accident.html>. See also Paul Cheshire's impressive summary of the problem, Turning houses into gold: the failure of British planning, CentrePiece Spring 2014, <http://cep.lse.ac.uk/pubs/download/cp421.pdf>.

⁶³ 7% of the MGB within the Greater London Authority is golf courses, also sprayed with pesticides. The ammonia sprayed on monocrops is the number one airborne killer of city dwellers in Europe. Paul Cheshire's article on this can be found here: <http://www.britac.ac.uk/blog/bigger-cities-are-more-productive-higher-cost-what-policy-could-do-doesn%E2%80%99t>

belt; and most green belt is not AONB. There is a clear opportunity to improve existing green belts.

Where the local community believes that is possible, there may be opportunities. The MGB is over four times the size of the built-on area of London. Just a few percent could allow for millions more homes, if society thinks that is worth doing.

If we are developing greenfield, it is important to have beautiful masterplanning, infrastructure, connectivity, walkability, active frontage, trees, and the other features that make a city a wonderful place to live. The Bedford Estate did it well in Bloomsbury, for example. London grew outwards for centuries until it was stopped in 1947. London was so much smaller in, say, 1593 and 1844.

HOW TO BOOST GDP AND SOCIAL MOBILITY, AND HELP THOSE JUST ABOUT MANAGING

High UK housing and office costs are one of the main reasons for low UK productivity.⁶⁴ The shortage of housing near the best job opportunities leads to high rents and prices which:⁶⁵

- Prevent more high-quality jobs being created, because there is not enough housing for more workers to live there
- Destroy opportunities for young people in other parts of the country, who cannot easily move there for internships or for permanent jobs

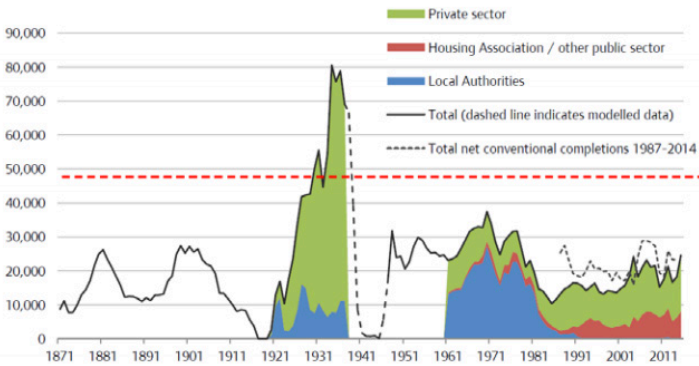
64 McKinsey Global Institute, Driving Productivity and Growth in the U.K. Economy, 1998, <http://www.mckinsey.com/global-themes/europe/driving-productivity-and-growth-in-the-uk-economy>

65 The parts of the country with the highest housing costs are mainly the ones with the best job opportunities. That is why people are willing to pay large amounts to live there. Otherwise, they would move somewhere cheaper.

- Are a needless and self-inflicted brake on economic growth.

More homes boosted the economy in the 1930s

Before the current planning system, we used to build many more homes. Millions were built by private homebuilders in the 1930s, mainly for sale to lower-income workers. That stopped when current planning laws were introduced from 1947. See the graph below⁶⁶



Estimated number of new homes built in Greater London, 1871 to 2015
 Source: GLA and Department for Communities and Local Government

In the 1930s, slower global growth led to lower interest rates, which made buying a home more affordable: millions of working-class families became homeowners for the first time. The construction boom

⁶⁶ Mayor of London’s Outer London Commission, Sixth Report, available at <http://london.gov.uk/about-us/organisations-we-work/outer-london-commission-olc/olc-and-full-review-london-plan>

and expansion of the money supply boosted the economy.⁶⁷ It is a natural response:

low growth → low interest rates → cheaper finance → building → economic boost

Why is that natural response not working today? Because the planning laws stop homes being built where they are most wanted. Without them, we would not be stuck with slow growth.

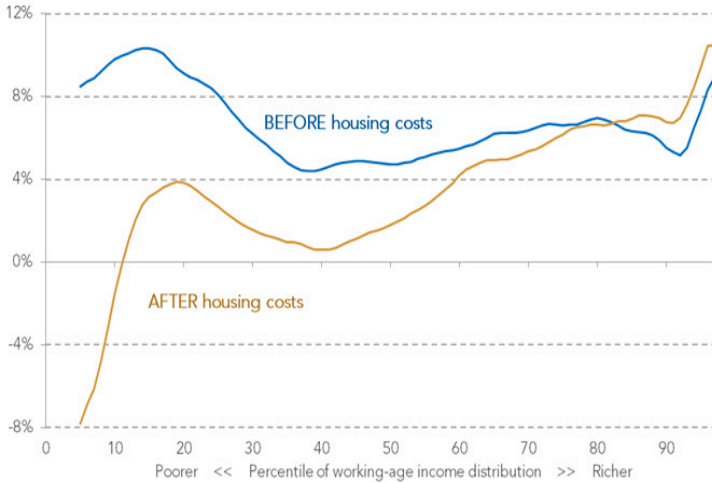
Needlessly high housing costs hurt those who are just about managing

Much has been written on this.⁶⁸ House prices in London are four or more times the costs of building a home. Rents would be much more affordable with better land use regulation. This graph from the Resolution Foundation shows how the poorest parts of the population have seen much less progress (or absolute real declines) in incomes since 2002, after taking housing costs into account:

⁶⁷ Through enlarged building society balance sheets from increased mortgage lending. For expansion of M1 in in the 1930s, see *The Cambridge Economic History of Modern Britain, Vol. II, 1870 to the present*, Roderick Floud, Jane Humphries and Paul Johnson, Cambridge University Press 2014, Figure 17.1. The minimum required deposit went down and the term allowed for mortgages went up, which made mortgages much more accessible. See also, e.g., Nicholas Crafts, *Delivering Growth while Reducing Deficits: Lessons from the 1930s* (CentreForum, 2011); Broadberry, S. N. (1987), *Cheap Money and the Housing Boom in Interwar Britain: an Econometric Appraisal*, *The Manchester School*, 55, 378-389; text to and sources cited in footnotes 25 and 27, <http://www.pre-war-housing.org.uk/the-effect-of-cheap-money-policy-on-the-building-societies-and-the-banks.html>

⁶⁸ See, for example, a short summary of the work of Matthew Rognlie of MIT in the Economist's post, *Wealth Inequality, NIMBYs in the twenty-first century*, <http://www.economist.com/blogs/freexchange/2015/03/wealth-inequality>

42 YES IN MY BACK YARD



Source: Department for Work and Pensions, and the Resolution Foundation

High housing costs destroy social mobility and damage the economy

Many of our young people are stuck in low-wage jobs in places with few high-skill job opportunities. Many of them would happily move to another city to get a better job, if that city had housing they could afford. It is cruel and unfair to try to 'rebalance' the economy by penalising young people or those who are just getting by.

The current shortage is leading to the development of a demographic that does not feel it has any stake in the improving economy. UK GDP

would probably be on the order of 25-30% higher with better laws.⁶⁹ There is strong evidence that the shortage of homes, offices and factories is the major reason for low UK productivity.⁷⁰

The Office for National Statistics estimates that the total market value of UK dwellings exceeds the replacement costs of building them by more than three trillion pounds:⁷¹ that is 40% of national net worth, or more than 200% of GDP. London rents may be inflated by more than 300% by the planning laws.⁷²

The housing shortage causes untold misery, inequality, stress and deadweight losses to the economy. Businesses that would be viable in other countries are not viable here because of high rents. Young

69 We discuss this at <https://www.londonyimby.org/blog/2016/12/10/the-uks-hidden-handcuffs> but briefly: Hsieh and Moretti in 2015 estimated a cumulative loss of 9.5-13.5% of GDP for the United States (Why Do Cities Matter? Local Growth and Aggregate Growth, April 2005, http://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1045&context=housing_law_and_policy) and the distortion in the UK is approximately three times greater. Their latest paper estimates that restrictions on housing supply reduced US growth between 1964 and 2009 by 50%: <https://faculty.chicagobooth.edu/chang-tai.hsieh/research/growth.pdf>.

70 See Previous footnote and the report by the McKinsey Global Institute, Driving Productivity and Growth in the U.K. Economy, 1998, <http://www.mckinsey.com/global-themes/europe/driving-productivity-and-growth-in-the-uk-economy>

71 Robin Harding, Target the planning laws, not the one percent, FT, July 15, 2015, <https://www.ft.com/content/8d5c6ed8-0c0a-11e4-a096-00144feabd0>. The relevant ONS data series are CGLK and MJF8. If Savills are right that the total value of dwellings is £6.8 trillion – higher than the ONS number – the situation is even worse.

72 Most London homeowners will find that their house price (including the scarcity value of the planning permission) is four to ten times the reinstatement value on their home insurance policy, i.e. the cost of rebuilding the house. The difference is primarily down to the planning regime. Please let us know if you would like further references.

people in stagnant job markets cannot move to high-growth job markets because there is not enough housing for them.

Recent US research shows that although the main driver of upward mobility has historically been migration from low-wage areas to high-wage areas, that process has all but stopped due to restrictive laws on land use in high-wage areas.⁷³

If we are to compete on a world stage, it is critical that we stop handicapping our industry compared to players in other countries. That should be the first part of a modern industrial strategy.

73 Peter Ganong and Daniel Shoag, Why Has Regional Convergence in the US Stopped? SSRN Scholarly Paper (2012), available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2081216

6. Why these suggestions will work

WHAT MAKES A GOOD REFORM PROPOSAL?

First, it should be a step in the right direction: an improvement in the long-term well-being of the country.

Second, it should be likely to be put into practice: it must be easy for a politician in power (or capable of getting power) to get enacted without retribution from the party or the polls, bearing in mind that

individual voters who are damaged will exact revenge but those who are helped are rarely grateful.^{74, 75}

Incredibly few housing reform proposals have addressed both of those. That is why we have a housing crisis.

There are plenty of helpful reform proposals that will never be enacted. There are plenty of useless (or worse) answers to the politician's syllogism that do get enacted.⁷⁶

What would make the country better off?

We think a good reform must:

- Protect things that people value, including a secure home and attractive places, if you do not want to excite massive, visceral

⁷⁴ An excellent paper by Dani Rodrik notes that (political) economists do not yet model policy innovation in the way that economists have learned to model technological innovation. When Ideas Trump Interests: Preferences, Worldviews, and Policy Innovations, *Journal of Economic Perspectives* Vol. 28 Number 1 (Winter 2014) 189, <https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/jep2e282e12e189.pdf>. In political science, Bruno Bueno de Mesquita and Alastair Smith describe democracy as an “arms race for good ideas”. *The Dictator’s Handbook, Why Bad Behaviour Is Almost Always Good Politics* (2011), page 43. Incredibly, the World Bank and the UK’s own Department for International Development now routinely take political feasibility into account when assessing reform proposals for other countries, but that has generally not been done for UK housing. See, e.g., Fritz, Verena, Brian Levy, and Rachel Ort. 2014. Problem-Driven Political Economy Analysis: The World Bank’s Experience. *Directions in Development*. Washington, DC: World Bank. doi:10.1596/978-1-4648-0121-1; DfID practice paper, Political Economy Analysis, July 2009, <https://www.odi.org/sites/odi.org.uk/files/odi-assets/events-documents/3797.pdf>

⁷⁵ We think another cause of inertia is that voters seem much more willing to apportion blame for change than for failure to fix something already broken.

⁷⁶ ‘We must do something. This is something. Therefore we must do it.’

opposition. That is why so many estate ‘regenerations’ have been so controversial.

- Make housing more affordable, secure and widely available (including homeownership if people want it), especially close to good job opportunities.
- Allow sensible growth, change of use and urban enhancement fast enough to reflect the speed of economic change.

What does ‘likely to be put into practice’ involve?

First, the reform must not arouse too much opposition, particularly from powerful or well-connected special interests. That is why every substantial green belt reform proposal for the last thirty years has failed.⁷⁷

That probably means that:

- It should involve minimal change to the existing legal and government system
- The macroeconomic impacts should be gradual at first:
 - To avoid an overnight house price crash (which might cause a short-term hit to the economy given the amount of debt linked to housing, as happened with the recent crash in oil prices); and
 - To increase the likelihood that a cautious government will adopt the measure in the first place.

⁷⁷ In economics terms, the reform should get as close as possible to being Pareto superior. Most reform proposals are merely Kaldor-Hicks improvements, which does not reassure politicians worried about vengeful voters. The current deadweight losses are so large that something much closer to Pareto superiority should be possible.

Second, a large group of people should see fast, large, direct and continuing benefits from it, so that they can fight for it before and after enactment.

Some people will always oppose any change.⁷⁸ There are ways and places to enhance that make nearly everyone much happier, except them.⁷⁹ Luckily, the people most resistant to change tend to cluster in certain places. By allowing local communities to decide whether they want change, we can avoid affecting those who most dislike it.

78 Some people may dislike change so much that no accompanying positive can persuade them that change is worthwhile; or at least it would require more than the total benefits to society from the change. These have been described as rational 'holdin' cases, as opposed to strategic 'holdouts'. See, e.g., Parchomovsky, Gideon and Siegelman, Peter, Selling Mayberry: Communities and Individuals in Law and Economics, *California Law Review* 92 (2004): 75-146, http://scholarship.law.upenn.edu/faculty_scholarship/21. Once they have been given quasi-veto rights, there is no Pareto superior solution. If so, society must decide whether the greater benefits to the wellbeing of many justify compensating those few individuals less than they would ask. That is easier in a wartime scenario.

79 We think there are four general themes. First, where a restriction aims to protect someone one, they should be allowed to waive it to allow the development if they want. Second, getting local approval of codes for design and of construction practices will help to increase support. Third, where many people are involved, coordination problems mean unanimity is likely to be impossible. Supermajority thresholds are the next best thing to ensure maximum support. Fourth, where someone has not consented, they should receive generous compensation for any adverse effects.

Why haven't we built enough decent housing near good jobs?

Why haven't we built enough housing in high housing cost, high-productivity areas like Cambridge, or London, despite house prices that are many times the cost of building homes?

At a high level, there is no institutional process to assess our land use system and systematically work out how to improve it, beyond a single political cycle.⁸⁰ It is also unhelpful that we have one single national system of law in England governing land use. That prevents natural experiments from happening. We are forced to make educated guesses about how we might improve the system, because there is no data.

Since 1947, the right to build has been taken from the landowner and is now effectively shared among a diffuse cloud of residents, voters, local officials, politicians and others.⁸¹ Although the increase in land value from being granted permission has mainly been returned to the landowner.⁸²

The procedure for granting permission has been made sufficiently complex that collective action problems mean that special interests

⁸⁰ That is for another paper. We suggest it should include some first-rate UX designers and software engineers as well as planners and economists.

⁸¹ There were historic restrictions, particularly London green belts and limits on heights in London, but 1947 was a radical removal across the country of the right to buy a plot of land and build your own home on it.

⁸² Measures such as CIL and section 106 only capture a small fraction of the value of planning permission being granted.

can lobby at many different stages, even if their views are different to the overwhelming majority of residents.⁸³

The problem is that no one with real power to get substantially more housing built has any interest in doing it, without a substantial improvement to the system.

Local government often suffers economically or politically if it allows more building, because it does not receive enough additional revenues to reflect the increased costs of services and outweigh the voting objections of local residents. Central government does not wish to see more revenues flowing to local government and so does not wish to increase the incentive to allow more building.

The current planning system has achieved a near-perfect separation of the desire to build homes from the right to do so.

⁸³ See, e.g., *The Logic of Collective Action*, Mancur Olson, 1965, https://en.wikipedia.org/wiki/The_Logic_of_Collective_Action, and the specific application to land use regulation in *City Unplanning* by David Schleicher, cited above, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1990353. Coordination problems are rife in land use regulation but it has been argued that they have received insufficient attention in the study of economic organizations outside the theory of the firm: <https://organizationsandmarkets.com/2010/12/28/coordination-problems-in-the-theory-of-the-firm/>. Clearly it gets harder to agree things about land as ownership becomes dispersed; as current uses, owners and occupiers of the land become less homogeneous; as relations between the different owners and voters become more complex; as the externalities of a use of land increase; and as the system of reaching decisions becomes less capable of resolving all of the above. It is possible to envisage land that is so diffusely owned and so differently developed under a sufficiently inefficient system of regulation that it is impossible to adapt the use of land fast enough to cope with the pace of change in a modern economy, as the UK demonstrates.

Starting from first principles, how could we design a system to block as much housing as possible?

First, prohibit all building unless specific permission is granted.

Second, create a lengthy procedure with extensive appeals and ultimate recourse to higher levels of government, to make sure that NIMBYs get as much chance to block as possible.

Third, make sure that questions about beauty have low priority, so that NIMBYs are as worried about new development as possible.

Fourth, ensure that construction has been very limited for forty years, so that the price of land with permission is obscene and buyers are so stretched that they just want square footage, and cannot afford to care about aesthetics.

Fifth and most importantly, make sure that every approval makes everyone else in the area clearly worse off (unless they have exactly equivalent property close by that will benefit from the planning precedent), and that the approval does not really benefit anyone in particular except the landowner.

Does any of that sound familiar? Is it any wonder that we have a NIMBY problem? It is hard to think of a system better designed to block as many new homes as possible.

To put it differently: approval for a single property is exactly the hardest way to go about it, because it makes sure that nobody nearby

benefits. It is much better to do it for a whole street at once, for example. Then you will be surprised by the support from many of the residents.

In the existing system, many planning applications (in aggregate even if not always individually) have the potential to make local residents significantly worse off. No wonder residents oppose them loudly.

It is pointless to lament, as some do, that we could change things – create more garden cities, or whatever – if only we had a politician of enough vision and courage.

A system that only works under the control of an exceptional (possibly mythical) person is a broken system. Competent designers create systems that function well despite human nature and reality. Designers have a rule that if the typical user cannot use the system properly, the problem is not the user.

In theory, the person wanting to build could negotiate with the local planning authority and all the local residents until nearly all objections have been met and there is agreement that a fair share (possibly

most or nearly all) of the gains from granting permission will go to the local stakeholders.⁸⁴

In practice, the current system mainly blocks that negotiation as explained in the following technical discussion.

Technical discussion: Why don't builders negotiate with communities?

Decisions are generally made by the planning authority, officers, inspectors and politicians. Homeowners know that new buildings tend to be ugly and justifiably have little confidence that only buildings that they want will get approved. That means they tend to fight for as many restrictions on new buildings as possible. The option of neighbourhood development orders fails to fix this, as we discuss later.

⁸⁴ Economists will recognise the Coase theorem, although its relevance is limited by endowment and wealth effects, by holdout problems and by the friction costs, delay, uncertainty, rational ignorance and complexity under the current system, not to mention the fact that it addresses economic efficiency given a particular initial distribution of rights, not overall welfare. Mancur Olson reviewed the problems of the Coase theorem in relation to nonexcludable goods and larger groups in Chapter 6 of his book, *Power and Prosperity* (2000), together with a highly relevant discussion of the power of selective incentives. Prof. Michael Heller of Columbia Law School explains the damaging impact of too many overlapping private or quasi-private rights in his seminal book *The Gridlock Economy: How Too Much Ownership Wrecks Markets, Stops Innovation, and Costs Lives* (2008). See also Lee Anne Fennell and Richard H. McAdams, *The Distributive Deficit in Law and Economics*, 100 *Minnesota Law Review* 1051 (2016).

Of course, where the rights are vested with someone other than the landowner, it will always be harder to get permission to build. That means the equilibrium price of housing will always be higher (supply lower) than otherwise. We aim to move the higher price (lower supply) equilibrium by reducing those issues.

There are normally so many voters in each planning authority that coordinating them is almost impossible, and the delays and expense inherent in such negotiations are prohibitive.

The current appeal system places very little emphasis on beauty, or on what type of buildings local residents want.⁸⁵ Because so many permissions are obtained by implicit or express threat of litigation, beauty gets neglected.

On greenfield sites, two factors create a Kafkaesque system to discourage developers from trying to reach consensus with local communities:

1. The priority for granting permission for development of land adjacent to existing settlements means that an owner of fields next to existing housing knows they will eventually win permission, if only by appeal: the requirement for adjacency reduces contestability. Similarly, the owners of the fields beyond that (and so on) know that they will eventually get their permission in turn, and their land is valued at a relatively low discount to the eventual value of that land with planning permission, given the current low interest rates and the inexorable rise of rents caused by inadequate supply under the current system.

There is a strong incentive to hold out for planning permission by appeal, rather than opting for a less profitable (or, depending on land acquisition cost, loss-making) development with higher quality buildings and more amenities, measures and compensation for the local community. That perpetuates the counterproductive system of planning by appeal.

⁸⁵ Create Streets has made this point eloquently and at length at www.createstreets.com

2. The near-absolute prohibition on developing green belt land – even when the local community wants it – means that the community has little power to encourage beautiful new development by offering permission to develop green belt land on condition that they get a beautiful new Bloomsbury, say, if that is what they want, or something in the local style.

WHY HAS NEIGHBOURHOOD PLAN- NING FAILED TO GENERATE MANY MORE HOMES?

As we explained above, neighbourhoods generally have no power to amend their own green belt, so that eliminates one approach.

Villages

Why don't small villages at least vote to improve themselves, allowing house extensions upwards and sideways?⁸⁶ We think partly because the many different types of buildings and situations, coupled with the historic nature of many such buildings, mean that it is almost impossible for a community to reach agreement about what sorts of improvement are desirable. Many people also move to historic old villages because they are historic old villages. They just don't want change.

Existing cities

We think the city neighbourhood areas, like the boroughs, have too many people for them to work together. Getting large numbers of people to make a decision is very hard and expensive. Permission on one street can mean entirely different things to a resident only a street away. Locals are also worried about one development being used as

⁸⁶ Either through their council or through neighbourhood plans or neighbourhood development orders.

a precedent for many others. Faced with a complex system, having a hard line of opposition to everything seems to be the easiest way for residents to coordinate to protect themselves.⁸⁷

All those problems leave us stuck with an inadequate, overpriced supply of small and often ugly or inappropriate housing.

Working with local preferences

Getting to a system that encourages proposals that local residents want, and giving effect to that support, is a powerful way forward.

Why? Local councillors and MPs will pay attention to local concerns because otherwise NIMBY voters will punish them. Local officers will care because their councillors do. Politicians at city or national level will care because of voter and MP pressure.

The value of someone's home is often more than their total net wealth. As Mancur Olson explained, a group of people with a strong interest in a single issue, will often defeat the general population with opposing interests because the special interest group will be much more dedicated and lobby harder.⁸⁸

⁸⁷ Another factor is that neighbourhood plans and orders in non-parished areas must be proposed by a neighbourhood forum often comprising unelected and unpaid volunteers, who are likely to be those most concerned about the visual environment and may often be older and more resistant to change.

⁸⁸ See, e.g., *The Logic of Collective Action*, Mancur Olson, 1965, https://en.wikipedia.org/wiki/The_Logic_of_Collective_Action, and the specific application to land use regulation in *City Unplanning* by David Schleicher, cited above, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1990353

This is fundamental and massively underappreciated. You cannot understand or improve the system without understanding how the various interest groups affect the system.⁸⁹

Analysis on purely planning, economic, psychological or aesthetic grounds is not enough. You have to think about all these and about the realities of the politics.

Most of the solutions driven by economic analysis are politically naive. The only way to keep homeowners on board is if they want to support the change.

Who is asked and what is asked (what options you bundle together) are key to getting more answers that will make everyone happier.⁹⁰

What worries neighbours?

The only way to stop an outspoken majority voting coalition of neighbours (homeowners and others) from blocking housing at the polls is to make enough of them happy with it.

What worries them?

- Many new buildings are unattractive
- Loss of greenfield land

⁸⁹ See Schleicher, David, Local Government Law's "Law and _____" Problem (2013), Faculty Scholarship Series, Paper 4961, http://digitalcommons.law.yale.edu/fss_papers/4961, explaining how local government legal scholars have not kept up with social scientists, and social scientists have often neglected the details of how the systems and law of local government actually work.

⁹⁰ This is not new ground. Much work has been done in international trade economics, political science, public choice theory, and other social sciences on how to build coalitions to support a goal. It has simply not yet been applied effectively to land use policy.

- Shadows
- Increased congestion
- Overlooking
- Increased pressure on schools, healthcare and other local services
- Possible reduction in their own house price, if they own it
- Disruption, noise, and inconvenience from construction
- Change

All of these reasons are rational, even if you may not like them.

Nicholas Boys Smith of Create Streets is right: making new buildings more attractive is a crucial part of increasing consensus for new housing. But it is, unfortunately, only a part. Ensuring that every new building is magnificent will not achieve millions of new homes.

Unless you really want (and have a politically achievable plan for how) to go all the way back to a free-for-all where anyone can build whatever they like without planning permission, these are real concerns that need to be addressed.

Education, health and other local services

Concerns about access to healthcare and good schools for their children are one of the main reasons given for NIMBYism.

That is completely natural. Any system that fails to address those concerns will face problems.

So long as good schools, doctors and hospitals are not free to expand as more residents wish to use their services, that will always be a problem.

Where services are provided by government, local resistance to more housing will only be minimised if there is a firm and binding commitment from the reforming government to create or expand hospitals, schools, doctor services and other public services, as quickly as possible after or while the new housing is provided. That must be done by expanding the best local providers of each of the existing services, not the worst.

How to do that is a challenge outside our expertise. We recognise that it will be hard.⁹¹

Shadows and loss of light

We describe above how the first solution for updating streets provides for design codes and protection for neighbours not on the street. Design codes can do the same for community decisions about green belt.

Overlooking

All cities involve some overlooking. A short walk through Venice or Soho will reveal how much was tolerated until recently. It mainly affects near neighbours, so letting a street pick its own designs will

⁹¹ In countries like the US where education is locally funded and where zoning is effectively a way for wealthy parents to ensure their children's schools are extremely well funded, this presents even more of a challenge. In the US education seems to be more of a NIMBY concern than healthcare, because it is easier for healthcare facilities to expand. We have seen other proposals to mitigate opposition by, for example, giving priority for admission to local schools to children who have lived in the area for longest. That will reduce NIMBY concerns about availability of good schools. It will also reduce the extent to which good schools are embedded in house prices. However, it will also reduce mobility and have other side effects and so we are reluctant to endorse it.

massively reduce the problem. If people are concerned about overlooking, they will not vote for the proposal.

Ugliness and views

The easiest way to address ugliness is to make sure that a legally binding design code is included with any proposal for new housing before it is put to a vote for local approval. That way locals will only get buildings that they like. Bloomsbury, for example, was developed with a design code imposed by the estate. With fragmented ownership, it is best to get locals to agree.

Our interviews indicate that some people prefer buildings with a long design life, and that they have an understanding (intuitive or conscious) of the quality of the buildings materials used. Those concerns could also be addressed with a design code, where it is relevant.

The proposals in this paper would not affect existing protection for long range views.

Congestion

Allowing suburban enhancement will make the suburbs more walkable, make businesses in those suburbs more viable, and mitigate the relentless increase of radial commuting in and out of city centres. It should also relieve pressure on long-distance commuting lines between cities.

We think it is unfair to penalise young people and those who are just managing to get by in order to keep traffic flowing at high speed. If

streets or local communities are really concerned about congestion, they will not opt for growth using the proposals above.⁹²

New people and change

Some people just do not like change. They want their neighbours to be like them. There is no point in denying that, and you cannot ‘cure’ them of it.

If you have addressed all the other problems and people still do not want more neighbours, but want their street to stay the same, despite strong financial reasons to allow growth, then forcing things through

⁹² In any case, a glance at any road shows that it is not efficiently used. Many vehicles have one or two occupants. There is a huge distance between vehicles. Many vehicles have needless boot space or passenger seats.

Are concerns about congestion like worrying about congestion on the canals shortly before the building of the railways? Predictions are difficult, especially about the future. Some things will be improved by technology. One example may be our senseless system of charging for road use, in which a car with four people on an empty country road pays the same fees and taxes as a lone motorist crawling along London’s zone 2 at rush hour. Absence of a congestion charge increases inequality by slowing down public transport and making it harder for people from lower-cost areas to commute to work. This paper is not about road pricing. Many think that road pricing is unavoidable, because electric and then self-driving cars will reduce the cost per mile driven until many more places see gridlock. Cars are getting ever cheaper, and people prefer not to share a vehicle if they don’t have to. The good news is that it will be much easier and cheaper to introduce a flexible, digital system of charging for our roads. Society urgently needs to work out how to do that without making the poor worse off.

Road pricing won’t solve the fact that doubling the number of people on one street will increase congestion (or fees) for all the streets around, and on public transport. In aggregate, that will create a lot of people who are opposed to the reforms. One easy way to reduce congestion is to allow car commuters a legal and administratively easy way to accept paying passengers. They are already allowed to accept contributions for the cost of fuel without the protections of a minicab licence. It makes no sense to ban them from charging more. It could easily be made illegal for an app to allow any driver with a criminal conviction to participate, and simply require a licence for the app, not the individual drivers.

will awaken the strongest opposition. Plenty of streets would like to enhance themselves. Why not leave the others alone?

There are good arguments for careful property tax reform to make people aware of the costs of their opposition to new housing.⁹³

Impact on existing house prices

There is evidence that building high-quality housing generally does not reduce prices of nearby existing homes, but if homeowners are (rationally) risk-averse this may be of cold comfort to them.⁹⁴

Much new housing is not of high quality. Homeowners run the risk of ending up with the bad developments. There may also be selection bias in the relevant studies; new developments that give rise to the most concerns will see the greatest local opposition.

In any case, a large enough amount of new housing (relative to the entire housing market in question) would reduce existing house prices. However, if existing homeowners get additional planning permissions, their land increases in value.

⁹³ We suggest the tax system could be improved by replacing stamp duty (SDLT) with a new property tax starting only from the date of transfer, preferably as close as possible to a land value tax (LVT). The present value of future cash flows from a LVT would be higher than that of SDLT, but without all of the problems caused by SDLT. We discuss the idea in more detail at <https://www.londonyimby.org/blog/2016/12/11/a-modest-proposal-on-stamp-duty>.

⁹⁴ Christine Whitehead, Emma Sagor, Ann Edge and Bruce Walker (2015) Understanding the local impact of new residential development: a pilot study, London School of Economics and Political Science, LSE London, London, UK, <http://eprints.lse.ac.uk/63390/>, although there are examples to the contrary: <http://contentdm.ad.umbc.edu/cdm/ref/collection/ETD/id/24227>

Estimates of housing price elasticity imply that it will take a large increase in the amount of new housing before the value of land declines substantially.⁹⁵ Homeowners who benefit from an increase in permitted development rights in a particular area will actually see their house prices go up.

Pushing more power down to a local level also ensures that residents can be confident about the quality and nature of a new development.

WHY WILL THESE SUGGESTIONS WORK?

The key is to find long-lasting processes to continually improve places wherever possible and get more homes built, gracefully and with local support. We review other suggested reforms in the Appendix.

To make a solution durable, the goal is not to pluck the NIMBY goose with the minimum amount of hissing. The ideal is to let the geese line up to volunteer feathers: to ensure that locals actually want new homes near them.

There is another benefit in letting local people vote for more housing. If they actively express support rather than simply acquiescing in permissions handed down from above, it enables NIMBYs to see that theirs is not the only legitimate local voice and that a large part of the community takes the opposite view.

⁹⁵ For example, the Redfern Review found that increasing supply by 1% would only reduce prices by 1.7 to 1.8%. The Redfern Review into the decline of homeownership, page 15, <http://www.redfernreview.org/>

WHAT IS THE KEY TO SOLUTIONS THAT WORK?

Who is asked, and what is asked, makes an incredible difference to the answer. Framing is everything.

It is key to understand the perspective of individual voters. Do the benefits to them (including, hopefully, their preference for a fairer society) outweigh their concerns? Can we ensure voters see benefits that overcome the problems of new development?

Compensation to the local authority

Existing planning obligations s.106 and CIL are supposed, in principle, to compensate local authorities and indirectly local residents for the costs of new development. The problem is that they are often inadequate compensation. They don't compensate those who are worst affected – the nearest residents. And residents discount compensation paid to the local authority by as much as 95% compared to the same amount paid to residents directly.⁹⁶

Direct benefit to residents

Building is easiest when local residents see some direct benefit from it. That can come, for example, through planning permission for homeowners themselves; raising the value of their property; through tax reductions; through compensation; or through some benefit that they directly appreciate, like parks, improved infrastructure or other services.⁹⁷

⁹⁶ Private surveys and focus groups.

⁹⁷ Direct cash compensation generally does not evoke enthusiasm from voters, although many are happy when they receive it.

That is why we believe suggestions one and two above are the most powerful.

7. The Future

Luckily Malthus was wrong: wealthier societies tend to have fewer children, not more, and so the demographic catastrophe he predicted did not happen here.

However, we have not yet seen an end to how much more living space people want as they get wealthier.⁹⁸

The UK (and London in particular) has one of the worst housing shortages in the world, but this is a global problem. Cities whose land laws have not allowed attractive growth have found it very hard to reform to end that needless scarcity and high cost of housing. Tokyo may be the city that has come closest to recovering from a high cost

⁹⁸ If cities are mainly labour markets (and we suspect that they are also dating markets, among other things), technological unemployment may ultimately lead to more people moving away from them. If technology progresses by that amount, however, society will be considerably wealthier than it is now and demand for housing will be much higher.

position, but housing in Tokyo is far more expensive than it needs to be.

In that sense, housing campaigners around the world have a common interest in helping other countries. Every high cost city can learn from best practices in other cities, to see what works to allow graceful growth.

The good news is that because the UK has the worst problem in the world, the benefits to even partial reform are the greatest here. We do not have to become the best at housing. We can achieve something dramatic and wonderful just by becoming average.

There are other steps to take. For example, we can reform land taxation and make it easier for people to move to a home of their preferred size. Ultimately, grandparents like to have space for their children to stay. Couples like to have a spare bedroom if they can. Families get on better if they can spread out more within the home. Some people like to have a vacation or weekend home if they are lucky enough to afford it. Demand for housing will continue to increase.

There is no point in artificially rationing the living space that people want if it can be built gracefully and affordably, in a way that does not harm the planet. But we can do much better than that. We can build all the homes people want, and by building them make our cities more attractive and better places too.

WHAT IF WE DO NOT FIX THE PROBLEM?

Failure is not an option. The crisis leaves millions stuck with little opportunity to work to improve their situation.

The shortage will continue to get worse as those who do get wealthier demand more space and squeeze the rest further; as more households form; as automation reduces low-wage jobs; and as the population increases. In those circumstances the people left behind will turn to extremist options (on the right or the left).

If we do nothing, there will be increasing support for rent controls, some form of property rationing, or other populist measures that do not fix the underlying shortage of homes in the right places.⁹⁹ Many of the homeowners most opposed to housing reform still do not realise that they may ultimately face radically higher property taxes or worse if the inevitably increasing social problems are not addressed.

As the digital revolution accelerates, our old system of land use regulation will be increasingly unable to adapt quickly enough to create new jobs to replace the ones that are lost.¹⁰⁰ Previous industrial revolutions have also led to populist revolts until measures were taken to protect the people left behind.

We are already seeing the growth of extremism at both ends of the spectrum. It is urgent to give people opportunities again.

⁹⁹ They may make the situation worse: rent controls create a lottery system, but do not address the fundamental shortage of housing. There is now a 50 year wait for rent controlled apartments in Stockholm. <http://www.thelocal.se/20170112/over-half-a-million-now-waiting-for-apartments-in-stockholm>

¹⁰⁰ See the brilliant book by Ryan Avent, *The Wealth of Humans* (2016). We also gratefully acknowledge inspiration from two books: Ryan Avent, *The Gated City* (Kindle Single, 2011) and Matthew Yglesias, *The Rent Is Too Damn High: What To Do About It, And Why It Matters More Than You Think* (2012).

8. Conclusion

Those of us who want to fix the housing crisis need to pick priorities. There are effective reforms that would make many millions of people happier; increase the supply and the beauty of new buildings, boost the economy, improve social mobility, help those who are barely managing in the current system, reduce inequality, and improve the electoral chances of the government responsible.

If nuclear power plants worked as badly as our laws on land use, they would all have melted down by now.

There are many other more ideologically pure proposals, on the left and the right. For a different government, we might have different suggestions. We have yet to find other ideas that seem to have good prospects of permanently fixing the housing crisis and of being implemented in the near term. We review some of the others in the Appendix.

Any reform must generate and retain the support of a majority voting coalition at national level. If it does not, it will eventually be overturned and fail.

Is your first priority ideology, or helping the people who are just managing to find or pay for housing and all the people who are hurt by the damage to social mobility, equality and the economy under the current system?

We welcome all suggestions, corrections and comments. We are strictly non-partisan and we are very open to better ideas, collaboration and partnerships. We will consider this paper worthwhile if it improves the quality of the debate about reforms, helping to get to better and faster solutions. Please email us at contact@londonyimby.org to give your thoughts.

There are vote-winning solutions to the housing crisis, as we explain above. Please let us know if you would like any further information.

Appendix: Review of other proposals

No-one has yet found the perfect law on land use, if there is one. Different parts of the world can learn from each other as we seek to improve current systems.

IS MASTERPLANNING THE ANSWER?

Please remember that if, like some housing advocates, you believe beautiful masterplanning of new mid-rise streets is the only way forward, green belt reform is probably your only option to fix the housing crisis. There are simply not enough assembled plots of brownfield land with room for enough homes to solve the problem, unless you want to radically change the legal powers to assemble plots or want our cities to become like Manhattan.

WHY DO WE THINK OTHER REFORM IDEAS ARE LESS LIKELY TO WORK WELL IN THE UK?

Land use regulation can be analysed as a repeated game with many players. These include homeowners, people paying market rents, social housing tenants, developers, landlords, promoters, charities, employers, politicians, and academics.

To keep it simple, think about the first two.

The game has at least two stable outcomes over time.¹⁰¹ The first exists in cities like Houston. Tenants are a majority and vote to make sure that supply of new homes is not too restricted by laws.^{102, 103} That ensures a generous flow of new housing that keeps rents at a low level reflecting the low cost of building new housing. The fact that prices do not go up means that people are less eager to become homeowners and that ensures a continuing voting majority of tenants.

The second stable outcome can be seen in places like southeast England. Homeowners form a voting majority and, for the last forty years, have voted for increasingly binding restrictions that have caused rents and house prices to rise far above the construction cost of new housing. Tenants do their utmost to buy a home because they know that rents and property costs keep going up.

101 There are other potential stable outcomes, such as a majority of social housing tenants who vote for massive supply of social housing. However, if those tenants already have tenure, they have a much weaker incentive to vote for more social housing than a homeowner has to restrict the supply of new housing.

102 Houston city's owner-occupied housing rate for 2010-14 was 44.5%: <http://www.census.gov/quickfacts/table/PST045215/00>

103 Houston does have bad laws such as minimum lot sizes that encourage sprawl.

Homeowners generally are older, wealthier and more likely to vote. Most of them also have a large fraction of their net worth tied up in their property. They tend to be better-connected, louder and more influential than tenants. For all of those reasons, they form a very effective lobby for higher house prices and against more housing.¹⁰⁴ If the proportion and power of homeowner-voters falls, allowing more housing to be built, the flow of cheaper homes will allow more renters to buy and restore the homeowner-votes to power again.

Many homeowners do not necessarily want higher rents or even higher prices. They just oppose more housing near them for the many rationally self-interested reasons discussed above.

Truly fixing the housing crisis involves house prices not going up. The only way to do that without raising howls of protest from homeowners is to:

- Give residents direct control of quality, location and design, because they do not trust anyone else to do it,
- Allow them to decide whether their concerns are met,
- Do it locally, to allow direct negotiations with locals to get developments that benefit and suit them,
- Minimise involvement at national level, to eliminate mechanisms to coordinate the homeowner cartel nationally.

Proposals that involve a top-down imposition of more homes (by whatever means) from national level are less likely to work, because angry homeowners (who form a voting majority) will block or reverse them, and punish the politicians responsible.

¹⁰⁴ Of course, such homeowners may be harming their own offspring by doing so. That has not stopped older generations from voting for a host of other measures that have disadvantaged the young. Mancur Olson's work on special interests is highly relevant here.

Proposals that involve just switching to a simpler or by-right zoning system (akin to permitted development), and ensuring that new buildings are prettier, also are less likely to fix the problem. Homeowners are not just worried about ugly buildings. They are worried about congestion, services, shadows, the ‘wrong type’ of people moving into the area, and about their house price. Plenty of US cities have simple zoning systems, allowing development by right, and still have massively elevated housing costs, because homeowners vote for very restrictive zoning.

Attempting to push industries to certain parts of the country also will not solve the problem, at least not soon enough to help enough young people who desperately need to learn world-class skills now. There are strong reasons why some companies choose to be in (say) Cambridge, despite housing costs that are artificially eight times that of Canterbury. If they could be as effective in Canterbury and drastically cut their wage bills and rents, they would already have done it. In any case, attempting to force industries to certain places by penalising young and poor people through a lack of homes near current jobs is an incredibly unfair and regressive way to achieve that goal. It might be more effective to relocate the entire government, starting with Parliament and the Cabinet Office, out of London. We have not yet seen an electorally feasible plan to do so.

We do not oppose many of the plans below. We would be delighted if many were implemented and worked. If that happened, some of them would be far more radical than what we are suggesting, particularly over the short term. However, we are not sure that any of them are practically achievable as a complete and long-term solution to the UK housing crisis in the near future.

We do not cover any of the initiatives focused on increasing demand by supporting buyers. Anything that does not substantially increase

the supply of housing (the primary cause of which is the ever-increasing shortage of land with permission to build new homes) does not fix the problem.

1. REFORMS THAT COULD SOLVE THE PROBLEM, IF THEY COULD BE ADOPTED AND KEPT IN PLACE

Where any of these solutions has any real prospects of reducing regional rents (and ultimately house prices), it will trigger howls of protest and hostile votes from the existing voting majority of homeowners, who will ultimately change the government to one more friendly to their wishes, unless their concerns have been addressed (which will probably need to include some form of compensation, either to their community or to them directly).

More council or other types of housing

One other solution we have seen that may well work is to unleash building by councils. The current system gives them a monopoly of the right to give planning approval. If you allow them to build as well, they will not refuse themselves planning permission. However, political limitations may mean they will not build as much as private developers. The great council housing wave of the 1960s resulted in a smaller net increase in housing than you might think, because so many existing homes were demolished to make way for them.¹⁰⁵ It will also result in a reduction in house prices for existing homeowners.

The challenge is to find a national government prepared to permit the millions of additional social homes that would be needed to end the

¹⁰⁵ See, for example, the graph by Neal Hudson at https://twitter.com/resi_analyst/status/644797677880889344

crisis, and to brave the hordes of outraged homeowner-voters suffering falling house prices.

Green belt reform

The London green belt is over four times the area of built up London. Much of it is not attractive, and many parts of it are near existing tube stations. It is clearly possible to review the green belt at a national level and radically increase the supply of land for new homes, given sufficient political courage. To permanently fix the housing crisis in that way (bringing house prices and rents down to a level reflecting the actual cost of building homes) would cause the howls of national and local protest.

Top-down imposition of greenfield development is politically the hardest, as every Secretary of State who has had to review an appeal concerning the green belt knows, because it doesn't benefit any existing homeowner at all – unlike the reforms we propose.

Permitted development rights

London has many fewer houses per square mile than Paris or Madrid, which many argue are prettier. It would clearly be possible to grant an as-of-right ability to extend houses upwards (and/or converted semi-detached housing into terraced houses, etc.) and substantially increase the housing supply. It is much more difficult to do that without losing the high visual amenity of many places. The government could specify design codes, but it is incredibly hard to come up with a range of design codes that will suit every street. That is why we think it is easier to let streets do it for themselves, and focus on the streets that want to do so. Some streets will never want to change, even with extremely strong financial incentives.

Direct voting

Alex Morton at Policy Exchange proposed replacing the current planning system with direct voting on each development.¹⁰⁶ The proposal is logically consistent. However, many of the details remain to be worked out and we think it involves so much change that the political barriers to getting it adopted are high.

More local taxes and/or land value tax paid to local planning authorities

We think tax incentives to local authorities to increase development (or other equivalent incentives, such as the German system of setting the compensation of the chief executive of the local government by reference to the number of residents) would have a powerful effect, given that local authorities have the power to permit vastly more housing.

However, we have yet to meet a national UK government that wants to radically increase the amount of taxes flowing to local government. If you know of one that is in power or likely to get elected, please let us know. In any case, even the German system has not managed to prevent house price increases: it has sufficiently blocked supply that prices have risen far above the cost of building homes. The more direct the control by local residents, the more confident they will be of getting a result they like, and the more confidence they will have to approve developments that they know will suit them.

¹⁰⁶ Alex Morton, Making Housing Affordable, Policy Exchange, August 2010, <https://policyexchange.org.uk/publication/making-housing-affordable-a-new-vision-for-housing-policy/>

Community land auctions

Community land auctions or CLAs offer a great way for some communities to have sufficient incentive to allow more housing.¹⁰⁷ CLAs would clearly help. However, unless they spread the benefits sufficiently widely, the angry packs of homeowners seeing declines in house prices are likely to raise their heads again, and any regional improvement in rental costs may be temporary.

CLAs are inherently a technology for greenfield or at least large sites, rather than a way of enhancing existing areas with widely distributed ownership. The money also flows to the local authority, which may work less well than benefits accruing directly to residents.

Tilts, zoning development budgets and property tax abatements

These ideas are clever and may be very useful in other countries.¹⁰⁸ We think concerns about visual amenity are so strong in the UK – partly because of the age, materials and the relative attractiveness of the current housing stock – that they are likely to be politically difficult to implement here.

Residential property taxes are so much lower in the UK that we think abatements are unlikely to be very effective.

¹⁰⁷ See, e.g., Tim Leunig, *Community Land Auctions, working towards implementation*, November 2011, <http://www.centreforum.org/assets/pubs/community-land-auctions.pdf>

¹⁰⁸ See, e.g., David Schleicher, *City Unplanning*, 122 *YALE L. J.* 1670 (2013)

What about air rights (TDRs)?

Manhattan does have a technology for enhancing existing built-up areas: air rights – technically, tradeable development rights (‘TDRs’). Building owners can basically sell their unused rights to extend upwards to other building owners, mainly on the same block.¹⁰⁹ That means every owner has an incentive to vote for higher limits, even if they themselves cannot or will not extend upwards or sell their property, because they can sell the extra rights.

That has allowed Manhattan to extend upwards much more than simple height limits (technically, ‘FARs’) would have allowed. But square footage in Manhattan is still far above the cost of building it; land with permission is extremely valuable. Air rights are not a complete solution, without making sure that enough new air rights are generated when prices go up.

Air rights give some compensation to existing homeowners but don’t address the risk that a new tower created from assembly of air rights will happen to overshadow their entire garden, materially affecting the value of their life savings. They also don’t address questions of visual amenity or other concerns.

Air rights might work, perhaps coupled with an absolute cap on heights. We are unsure whether they are politically feasible.¹¹⁰

¹⁰⁹ Clever exceptions to the same-block rule for popular theatres allowed Mayor Koch to build a coalition for increased air rights in the area around Times Square. Schleicher, David and Hills, Jr., Roderick M., *Planning an Affordable City*, *Iowa Law Review*, Vol. 101, pp. 91-136 at 125-7, 2015; *Yale Law & Economics Research Paper No. 530*, <https://ssrn.com/abstract=2690311>

¹¹⁰ If London had a few 120-storey towers, would the backlash against merely 40-storey towers be as great?

2. REFORMS THAT COULD HELP, IF THEY COULD BE ADOPTED AND KEPT IN PLACE, BUT WOULD NOT COMPLETELY FIX THE SHORTAGE OF SUPPLY

More local planning including neighbourhood plans

Local communities are concerned about beauty but they are also concerned about congestion, health, education, shadows, change of character and change in general, not to mention developers' ability to 'game' any particular set of rules to get undesirable results. Areas in other countries with locally-set rules often have high restrictions on housebuilding. As we have discussed above, neighbourhood plans may help, but they will not solve the problem.

Create boulevards

Create Streets has helpfully pointed out that many major roads in London could be improved by redevelopment, and that local objections are likely to be much smaller.¹¹¹ We think Create Streets would be the first to recognise, however, that this would not completely solve the housing crisis because it simply would not provide anywhere near enough homes. Many other proposals from Create Streets are also helpful, although we have not yet seen one that constitutes a complete solution to the housing crisis. One exception is their Green Wedges proposal, although that requires a mechanism for enacting the necessary green belt reforms.

111 <http://www.createstreets.com/create-boulevards/4592858803>

German, Dutch or other systems

Many other countries have systems with benefits, but they mainly focus on greenfield land. They are also failing to generate enough supply in response to price increases.

More local taxes and/or land value tax to reduce demand (but not paid to local planning authorities)

Many areas of the United States with high local taxes (e.g. 2.4% of property value per year in Scarsdale, New York) still have high house prices and restrictions on building.¹¹² No doubt, a more sensible system of property tax would reduce demand for property and mitigate the supply/demand imbalance. However, on its own, it will not fix our horribly inflexible supply of housing.¹¹³

¹¹² New York Times, Even in Affluent Towns, Rising Tax Bills Mean Angst, and Appeals, http://www.nytimes.com/2015/01/27/nyregion/even-in-affluent-towns-rising-tax-bills-mean-angst-and-appeals.html?_r=0

¹¹³ A simple land value tax may also interact badly with the current system where developers must spend a considerable amount (to society's benefit) in order to get planning permission to build homes. Discouraging them from working to get planning permission is not in the interests of anyone except local NIMBYs.