Empty homes, longer commutes: one of the many unintended consequences of more restrictive local planning.

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Housing crisis is long term + more than housing

- Planning serves valuable purpose: land markets have endemic problems of ‘market failure’;
- But – 1) supply restriction to safeguard public goods e.g. heritage coastline; or 2) generic supply restrictions; too few houses: too many in ‘wrong’ places;
- Many reasons – broken policy not broken market!
- Here focus is planning system systematically restricting supply; obvious effects (prices) but also less expected ones;
- How?
  - Development control injects (more) risk into development – so higher risk premium and less development;
  - Restricts supply of space directly – Green Belts + height controls;
  - Indirectly - because land supply does not increase with incomes;
  - Locally – the LA says ‘no’;
International comparisons?
(Real HP growth 1970-2015, selected OECD countries)

Sources: BIS, World Bank, Bank of England
Shortfall of housing close to catastrophic

- Shortfall of house building in England MAJOR problem: and a long term problem
  25 years 1967-1991 = 5,699,180
  25 years 1992-2016 = 3,502,050
  ➢ Implies shortfall = 2,197,130

- Annual build ‘needed’ to stabilise affordability *(NHPAU, 2009)*
  = 237,800 to 290,500 – say 260,000

- So over 25 years = 6,500,000
  ➢ Implies shortfall = 2,997,950

- So: 1992 to 2016 shortfall of between 2,197,130 & 2,997,950

- By 2017 - on reasonable assumptions - new build housing a good 2.5m short of requirements
And Housing Affordability Worsens

Figure 1: Ratio of median house price to median annual earnings

England and Wales, 1997 to 2016

Source: House Price Statistics for Small areas and Annual Survey of Hours and Earnings, Office for National Statistics
Development risky: planning (in UK) makes it riskier

- Costs in the short term, returns in the long term: both over time, so discounted and ‘expected’.
  - Decisions are made by LAs – political committees apply ‘development control’;
  - Only about half LAs have plans – often do not follow them;
  - Decisions are politicised so subject to local lobbying;
  - Can be appealed to:
    - 1) Inspectorate;
    - 2) Secretary of State;
- So not just profits are subject to uncertainty – ‘normal commercial risk’:
- Additional risk premium, reflecting uncertainty of permission.
And search for ‘planning gains’ makes it riskier

Then how much ‘affordable’ housing?
• Add uncertainty over ‘planning obligations’ (Section 106);
• Not known until very late in process – 3 or 4 days before Planning Committee meets;
• Result? Developer can only then estimate price to pay for land;
• Having agreed that, then needs to secure finance;
• This affects smaller developers most because of information and access to capital.

Effect of extra risk is less projects are viable, so less is built;
Search for affordable housing makes all housing less affordable.
Systematically favours larger developers – monopolisation.
Contrast ‘rules-based’ systems e.g. Zoning or Master Planning.
Price of house is Structure + Land

Restrict land supply?

Greenbelts from 1955:
‘...the major function of the Greenbelt was...to stop further urban development...’ Still is (NPPF, 2012).
Cover 1.4 as much land as all urban areas; urban less than 10%;

Not specifically green: biggest use - intensive arable e.g. Cambridge 74%. No amenity or environmental value.
Result given rising demand for housing (space)?
Rising real prices...

Figure 1: Real Land & House Price Indices (1975 = 100)

- Land Price Index
- House Price Index

Note: House and Land data for war years are interpolated.

Source: Cheshire, 2009
What happens to price if you restrict the supply?

- Can identify Green Belt by land price....
Can’t build here

Baker St 30 mins

£100,000:

No humans!
WWII halted development: one stranded station
CrossRail: £18 billion spent but NO development here
Not out, not up: Height restrictions e.g. London

Source: Cheshire and Derricks (2014)
Protected view from King Henry VIII Mound (Richmond Park)

Good (economic) reasons to protect townscape: but consider costs as well as benefits!

This sight line also ‘protects’ backdrop:
- Liverpool St. Station area
- Stratford
And unintended consequences: Commuters jump the Green Belt in search of affordable space

Change in proportion of resident working population commuting to jobs in Inner London 2001 to 2011:
Local Authority level data.

Source: Census
Land allocation?

- On the basis of forecast housing ‘need’ – land allocation typically for 5 years.
- But prices reflect balance of supply and demand; What determines demand?
- Economics 101 tells us demand is a function of:
  1. Size of market (number of buyers);
  2. Preferences;
  3. Incomes;

➢ System ONLY allocates supply on ‘size of market’!
➢ So it systematically restricts supply vis à vis demand.
Growing population: The cause of the housing crisis?

• We all know that? But look at London…

  • GLA Area

• Period % Change Pop %Change Real House Prices
  • 1981-2011 +20.5 227.6
  • 1951-1981 -16.9 71.9
  • 1951-2011 +0.1 +463.2

➢ No we do not! Price results from interaction of supply with demand;
➢ Population has some impact on demand: but the far more important influence is real incomes
More formal evidence?

- 1997 - commissioned to construct model to estimate impact of alternative land release policies given population forecasts;
- Individual house sales – price + details of houses & location; characteristics of occupants including income and family size.
- So could estimate prices of house attributes inc. space inside and in gardens per m$^2$; + structure of demand – how consumption changed with income and price.
- Simulation to 2016 - 60% brownfield (inside urban boundaries);
  - 1996 forecast pop. growth => house prices +4.4%
  - Forecast pop. growth + incomes grow at historic rate – house prices => + 131.9%.

Income growth drives demand.
- Actual real price growth to 2016? – 125%
Housing: strong income elasticity

• Space - inside houses and in gardens – is valued;
• As people get richer buy not more beds – bigger beds; bigger bedrooms; a spare bedroom; space outside; garage space…
• Estimates of income elasticity of demand:
  • Cheshire & Sheppard (1998) – about 2 (for space)
  • Meen (2013) – about 2.7 (for houses)
  • OBR (2014) – about 3 (for houses);
• Since early 1950s real incomes up x 3
• Car ownership up x 13
• Allocating on the basis of household numbers systematically undersupplies land: so increases price of land & housing; and increases price volatility.
Systematic restrictiveness: but also LAs say ‘no’

- Proportion of planning applications rejected varies by LA from 50% in several LAs in S. E. to 7% in Middlesbrough.
- Hilber & Vemeulen (2016) estimate effect on house prices of differential local restrictiveness;
- Allow for natural differences in land availability via topography and proportion of LA already built up;
- Result – by far most important source of house price variation is local restrictiveness - % of applications refused.
- Topography and % built are statistically significant but unimportant;
- If average restrictiveness of LAs in the S.E. as low as N. E., house prices in the S.E. at least 25 % lower;
- And lower bound because only from 1974.
Local restrictiveness, empty houses & commuting

• The ‘scandal of empty homes’…

• “…offset against that is an assumption that vacancies in the existing stock should be reduced by 0.5%…bringing 8,600 dwellings…into use”

• Existence of empty homes used as reason to allocate less land, so ‘no’ more frequently.

• But how does housing market work?

• Houses are complex goods – many attributes including specific location.

• Process of ‘house hunting’ – searching for acceptable housing attributes at an affordable price; akin to labour market search;

• Both buyers and sellers face incentives to sell/buy.
Opportunity cost versus mismatch?

- Greater local restrictiveness increases house prices (Hilber & Vermeulen, 2016);
- Higher prices generate incentive to occupy houses – so fewer vacancies;
- But – house hunting becomes less efficient:
  - Demand for housing attributes is dynamic: family-sized close to better school; with parking/garage space; home office; granny flat; smaller for older people; local jobs grow/decline.
- So the more restrictive LA is, more difficult to adapt attributes & location of housing stock to changing demand;
- So more restrictive local planning generates more vacancies: ➢ because search gets more difficult for both buyers & sellers – ‘mismatch’ effect.
Which dominates is an empirical question...

- Focus of Cheshire et al. (2018) – offset for reverse causation and problems of endogeneity – to get unbiased estimates;
- Changes in vacancies and restrictiveness 1981 to 2011 for 350 English LAs.

➢ Clear evidence that ‘mismatch’ effect dominates.
- Unconditional relationship shows vacancies lower in more restrictive LAs;
- But add controls and offset for econometric problems –
- A one S.D. increase in local restrictiveness increases vacancy rate by 23%; also increases commuting distance for those with local jobs by 6.1%;
- Also increases share of temporary dwellings; and crowding – more adult children living in parental home.
Markets complicated: push here, pop out there

• Attempt to ‘regulate’ vacancies away increases vacancies;
• ‘Containment’ policy in the long run causes cities to spread – people commute further, searching for affordable space;
• Our policies designed to generate ‘affordable’ housing make housing less affordable in the long run;
• Function of planning to co-ordinate transport investment and urban development thwarted by Green Belt;
• More restrictive local planning reduces number of local supermarkets & reduces their size: 1 SD increase in local restrictiveness causes 42% reduction in supermarket space in LA – so lengthens shopping trips (Cheshire et al., 2015)…
• As well as the obvious fact that housing is made less affordable….
Conclusion

• Need to regulate markets because of problems of ‘market failure’;
• Major causes of market failure well-understood by economists;
• A particular problem in land and property markets;
• So need to regulate and to ‘plan’;
• But planning not informed by an understanding of how markets work does substantial damage –
• To economy and to social welfare.
Some References