Arrested development

Are we building houses in the right places?

Tom Aldred, **Centre for Cities**
11 May 2010

Outline

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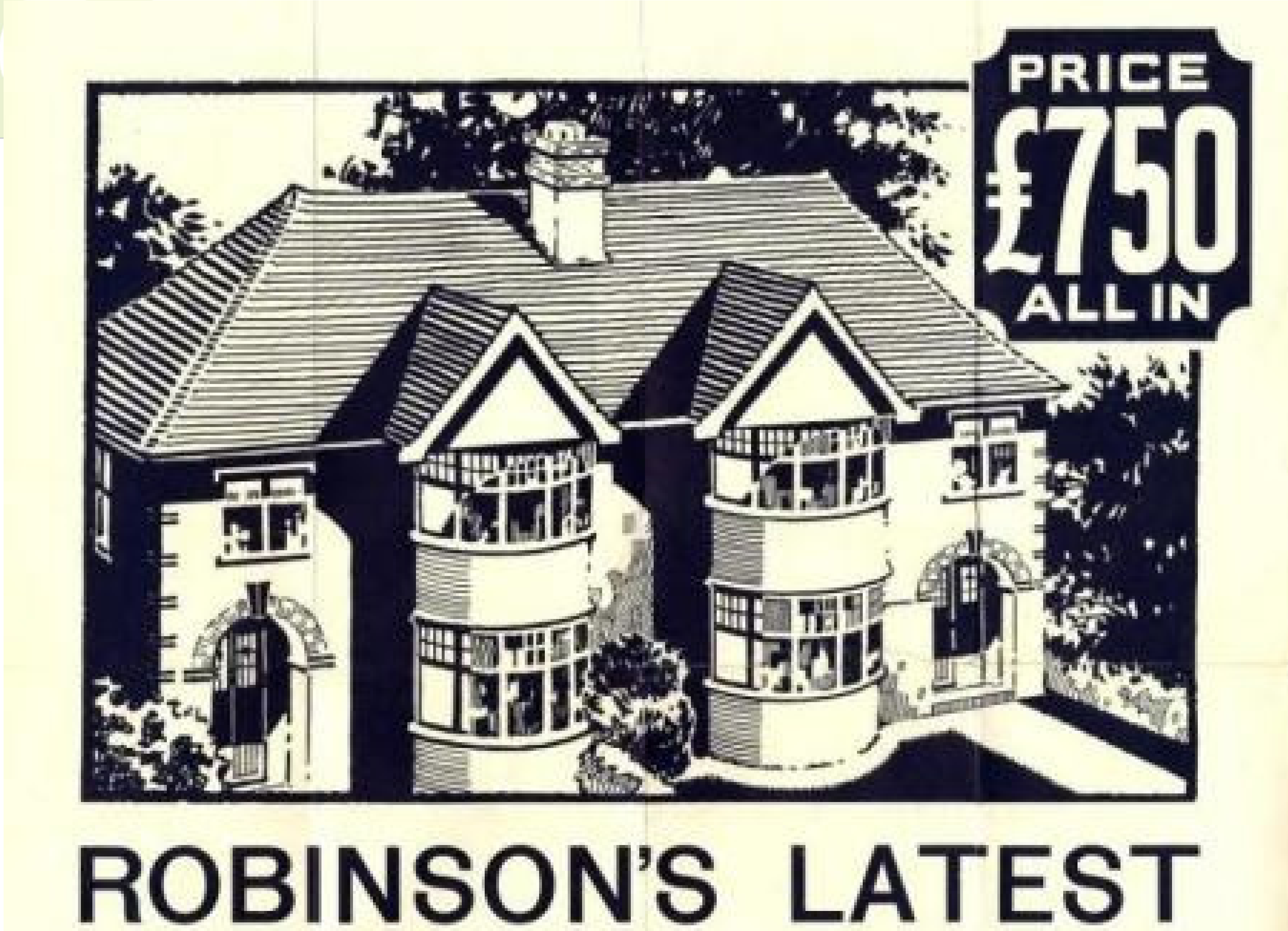
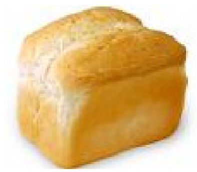
1	Problem
2	Role of land use regulation
3	Role of incentives


PRICE
£750
ALL IN
ROBINSON'S LATEST

House prices have risen rapidly

	1933	2009	CPI up-rated
	£750	£320k	£40k
		'HPI' up-rated	
	1.4p	£5.97	
	1.2p	£5.12	
	7.5p	£31.99	

Sources: CLG table 502, National Archive, ONS Consumer Price indices 1800-2009

Prices and supply, since 1975

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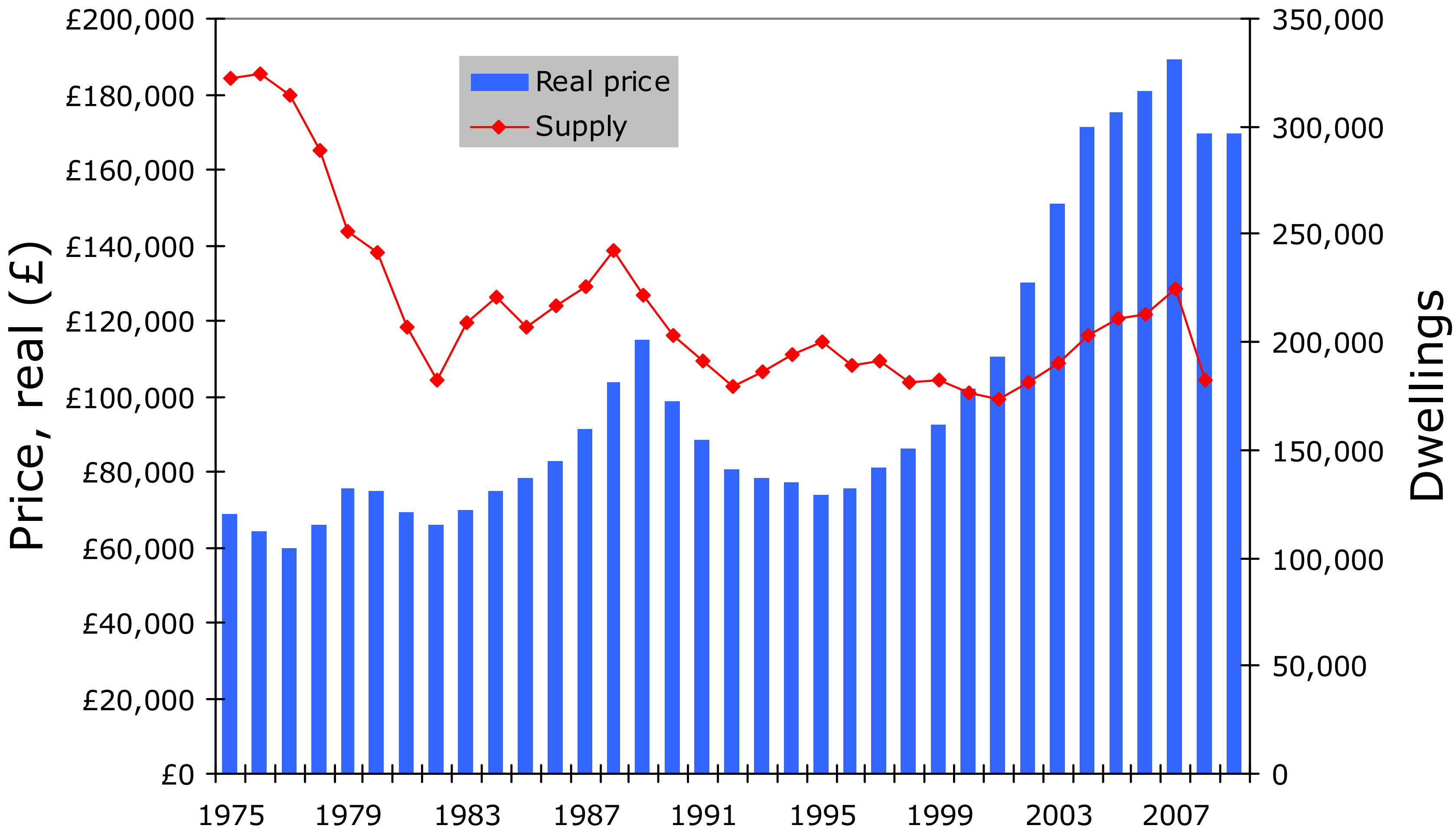

Sources: Nationwide House Price Index, CLG table 241

The UK's economic geography has changed

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Massive structural change in last century

- Electricity replaces coal
- Rise of road haulage
- Globalisation
- Shift towards service sector
- Trade moves towards Europe
- Rise in skill intensity

Structural change has spatial implications

- Has tended to favour: inland, southern, cities
- Requires a spatial shift in labour supply

Sources: Overman & Leunig (2008): *Spatial patterns of development and the British housing market*. OREP 24(1); Crafts & Leunig (2006) *The historical significance of transport in economic growth*. Background paper for Eddington Review

House-building is not very responsive

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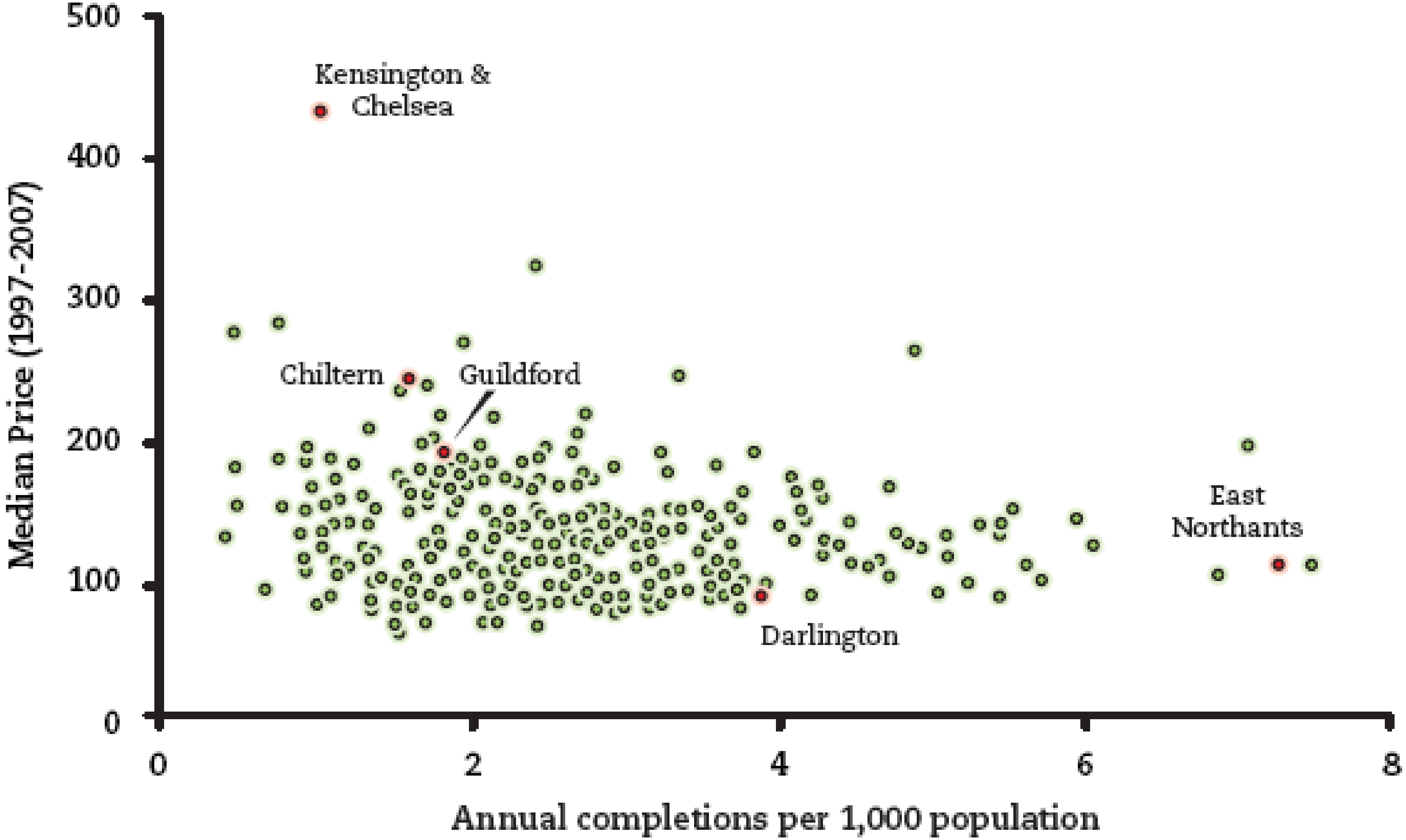
Figure 3: Prices and new construction, by local authority district



Constraining some of the UK's cities

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	House-building compared to England (per head)		Weekly earnings	Median house price	High-skill residents
	Private	All	£	£	%
Brighton	-58%	-55%	479	213,790	38.1
London *PUA*	-33%	-21%	626	290,370	37.7
Cambridge	-15%	-16%	540	249,725	51.8
Reading	-7%	-5%	559	217,378	36.3
England			490	174,495	28.7
Doncaster	-1%	-10%	411	110,000	17.2
Barnsley	+25%	+12%	419	106,500	21.3
Mansfield	+29%	+24%	403	105,385	17.6

Data at PUA level. Data for 2008 and 2009.
House-building data is for 1999/00 to 2006/07

Long-run drivers of demand are strong

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- Credit is likely to be more constrained in the medium term, but other drivers are robust:

<u>Household formation</u>

- Central estimate 290k per year
- Sensitive to assumptions about migration

<u>Income</u>

- Demand highly dependant on income.
- Historical trend suggests average income doubles every 35 yrs
- $\varepsilon > 1$

Land is the key

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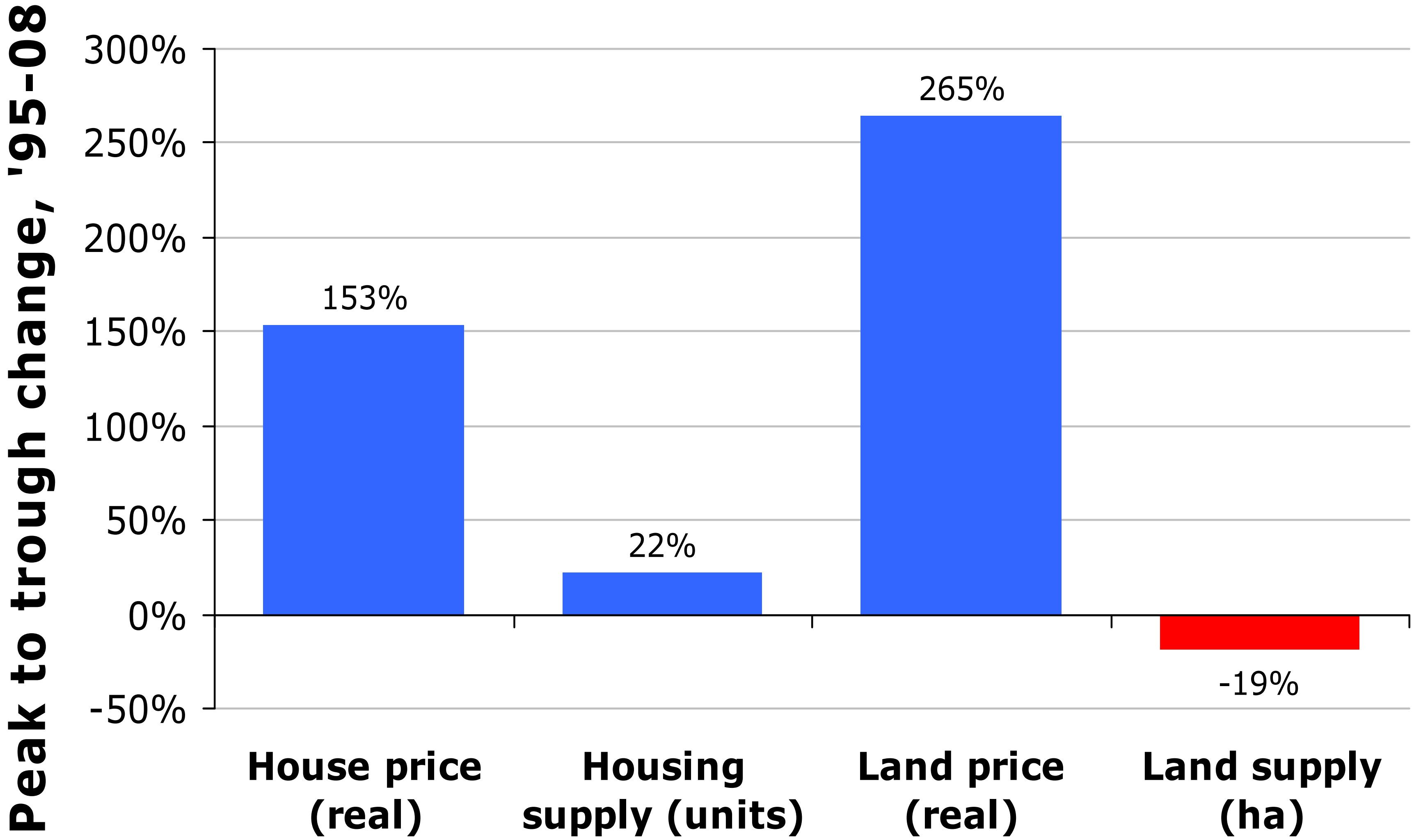

Regulation has choked off supply

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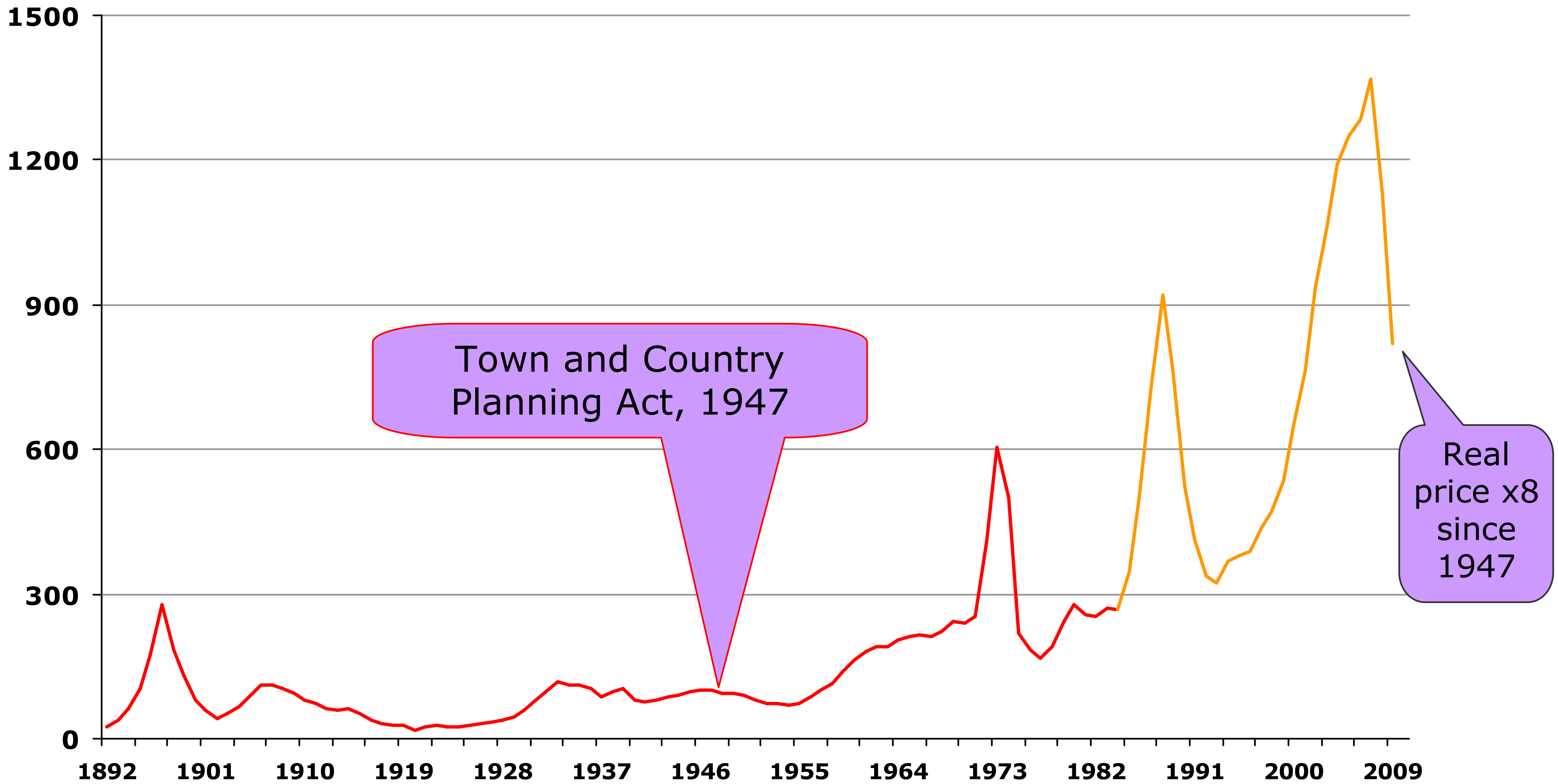
Real price of residential land. 1947=100



Britain is not 'over-developed'

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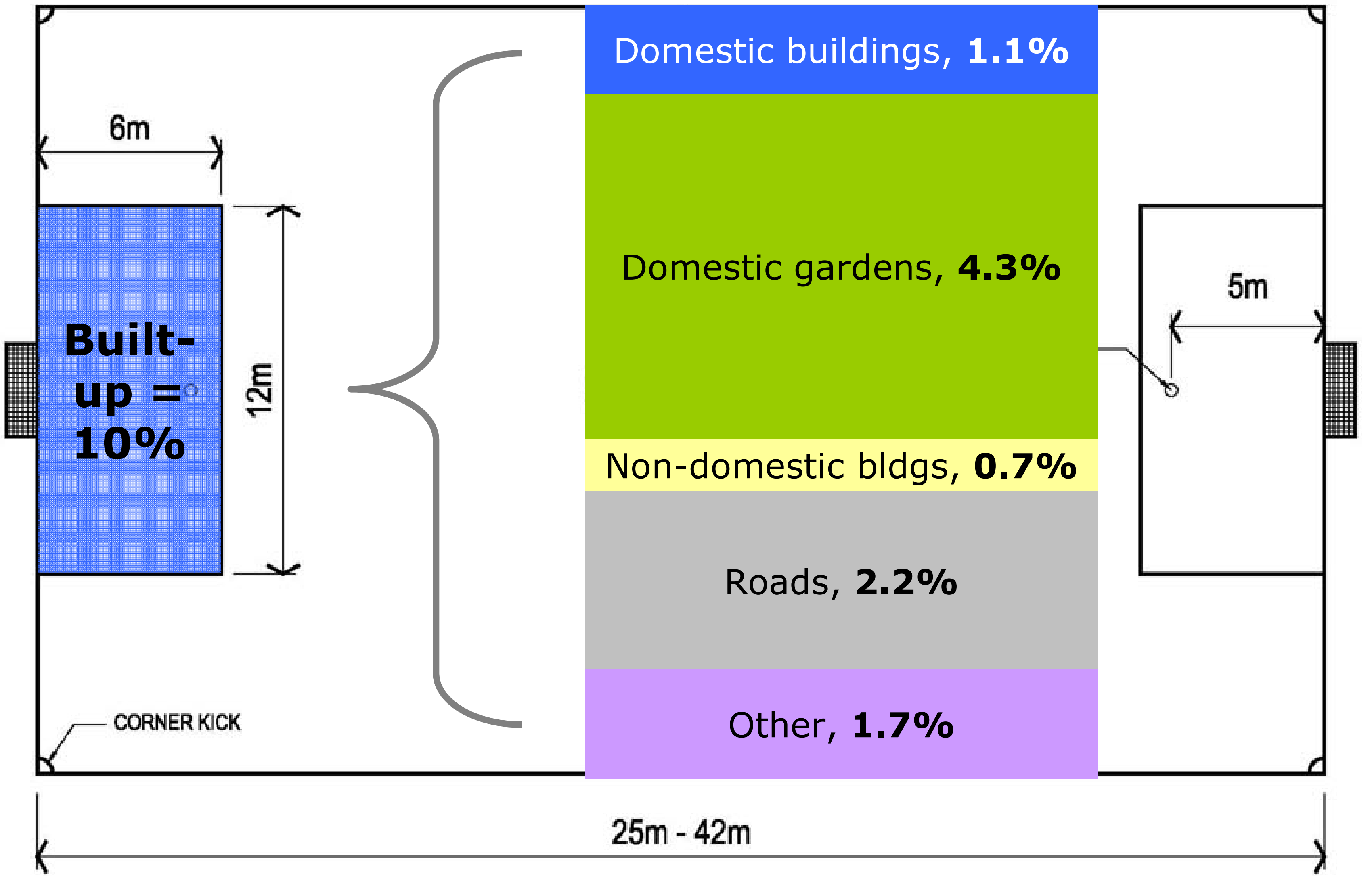

Land regulation is too restrictive

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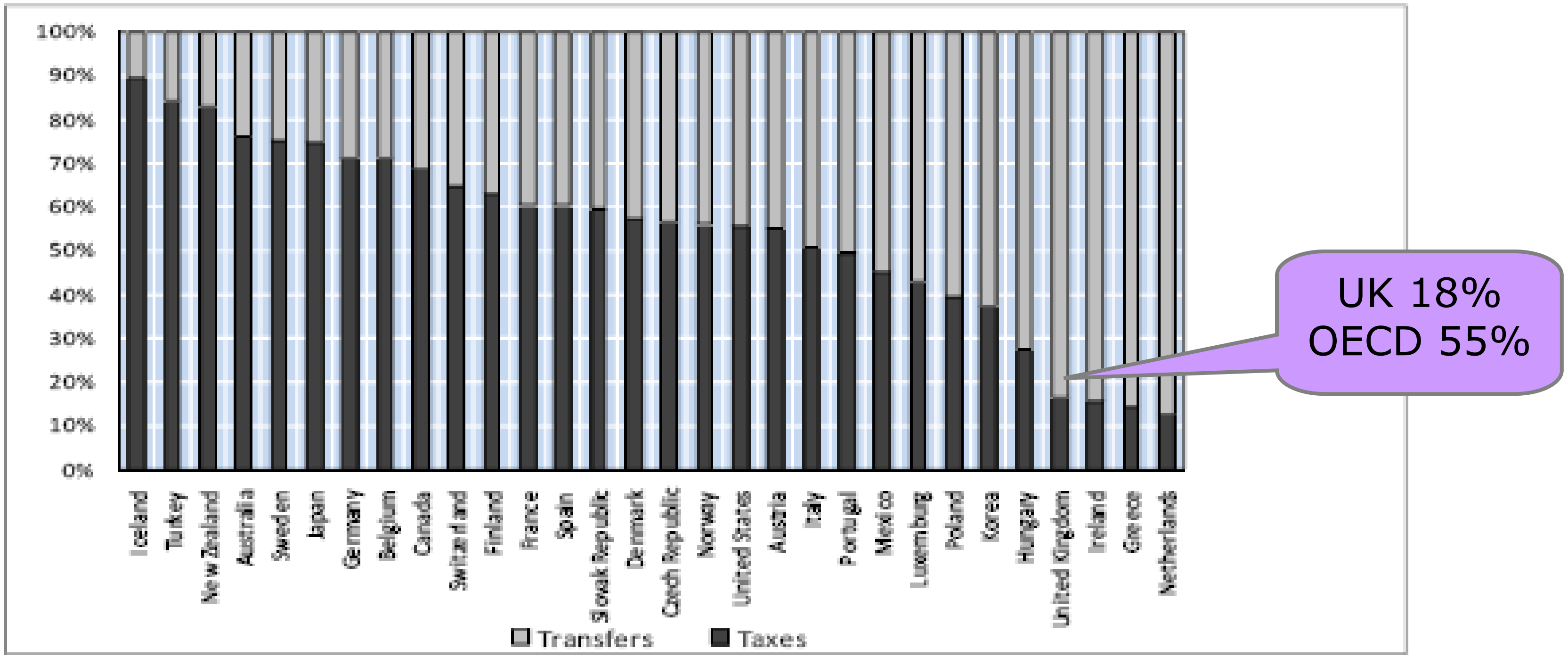
	Green belt	**Brownfield**
Land coverage	13%	0.2%
% of new supply	2%	80%
Location	40% surrounds London.	11% of vacant land is in London and SE

- Not always effective ‘environmental’ policies
- Very blunt instruments
- Better managed locally

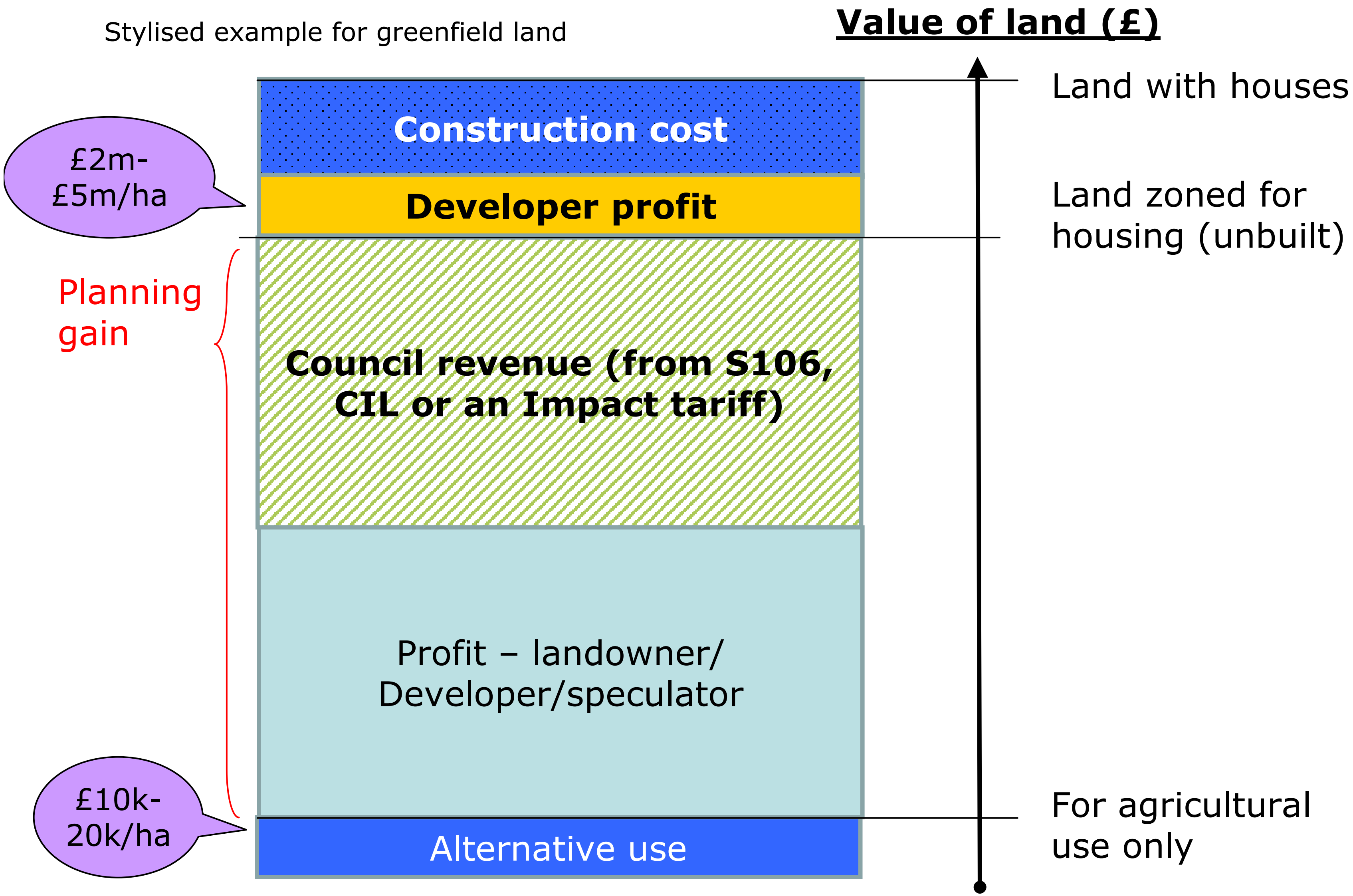
Local incentives are vital

- Local authorities control land supply
- Loosening national regulations won't be enough
- Choice of incentives or decreasing discretion

Figure 1. Revenue composition of sub-central government, 2005
In per cent of total SCG revenue



There remains huge potential for planning gain



How auctions could work

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- Council announces periodic auction

1st auction stage

- Landowners invited to offer land for sale

Local plan stage

- Council looks at bids as part of making local plan
- Council decides which land to develop
- Council sets out acceptable form of development

2nd auction stage

- Council puts land parcels out for tender
- Highest bidder wins right to develop land

Auctions could extract more planning gain

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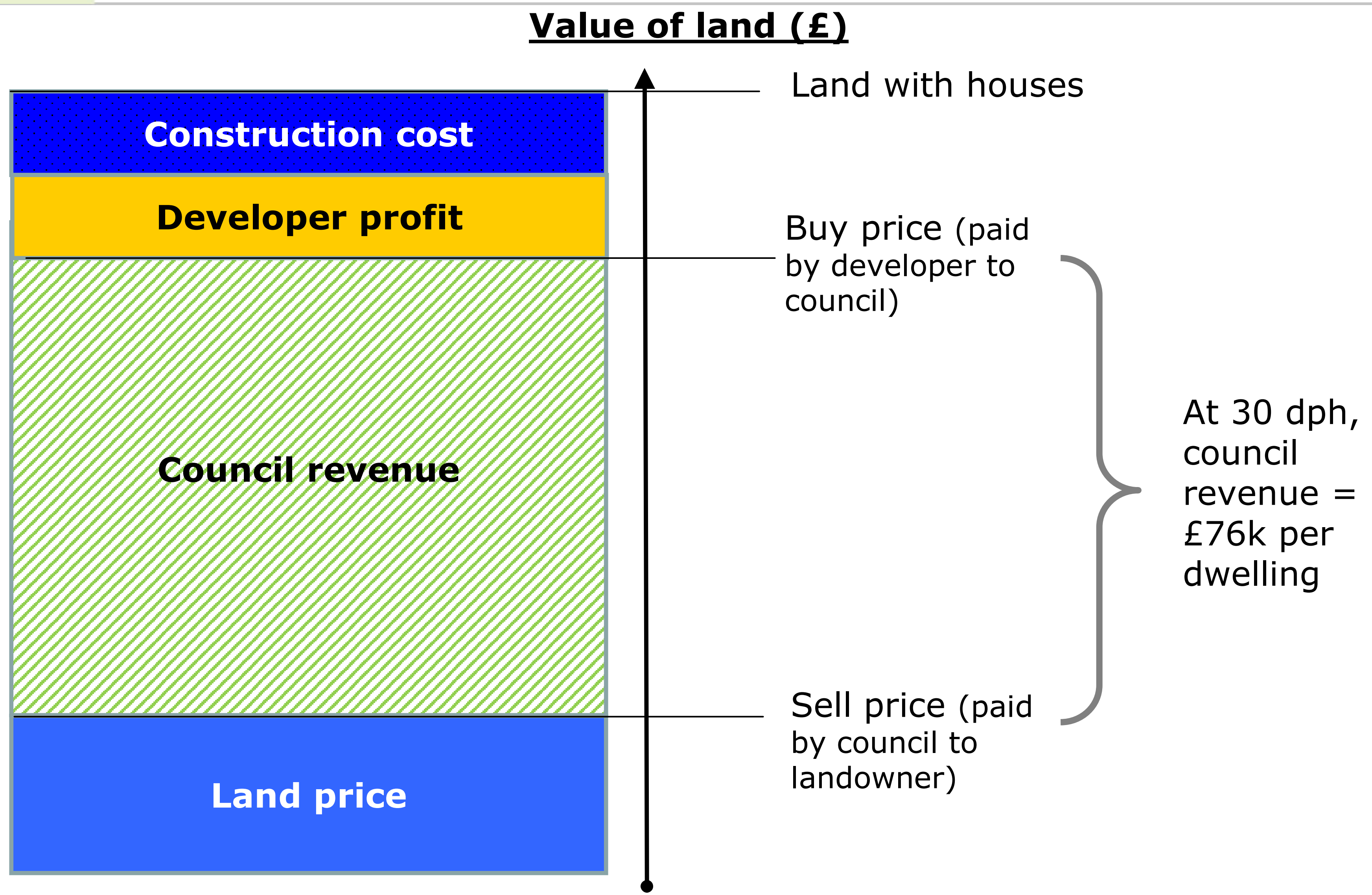

Auctions have a number of benefits

- Extract more planning gain
- Benefits more visible to voters
- Incentive to bring forward land suitable for housing
- LA retains central role
- But - an untried policy so pilots are recommended

Recommendations

1	Loosen national land use regulation
2	Increase incentives
3	Leadership

Thank you

t.aldred@centreforcities.org