



Campaign to Protect
Rural England

A CPRE report

Planning for Housing Affordability

Why providing more land for housebuilding will not reduce house prices.

Executive Summary

Summary

The affordability of private housing for sale is a perennial topic of public interest but only recently has the Government asked the land use planning system to address it. There has been concern in the Treasury and elsewhere about rising house prices and deteriorating affordability. Households are having to borrow larger sums to buy a property (measured as the ratio of house prices to incomes).

A review commissioned by the Chancellor of the Exchequer from Kate Barker, member of the Bank of England Monetary Policy Committee, concluded that in order to improve affordability more homes needed to be built. This higher rate of supply should be achieved by the planning system allocating more land on which houses could be constructed. This is the principal policy response the Government has assigned to the planning system to tackle affordability and it is the focus of this study. This contrasts with conventional approaches to planning for housing, which have centred on supplying homes to meet the needs of households expected to form, not to reduce house prices.

Reviews of house prices and the housing market normally focus on demand and the ability of people to pay as the main explanations for house prices and price trends. The starting point is that, since the early 1990s, house prices have been increasing more quickly than earnings, seemingly making purchasing a home progressively less affordable. However, the upward trend is far less marked when measured in terms of the proportions of income which people (especially first-time buyers) devote to mortgage repayments. The difference between the two measures can largely be explained by interest rates (which have been low in recent years), and by mortgage lending policy (which has recently encouraged loans on larger multiples of incomes). Furthermore, as the nation has become wealthier, there is a larger amount of capital available, which many people choose to spend as deposits on housing. Some of this is derived from recycled housing wealth, provided when parents and grandparents release capital when they 'downsize' or die.

The supply of new housing makes only a very small contribution to house price trends. In the short term, the price of houses is controlled by the price of existing houses for sale (typically comprising 90% of

the houses on the market at any time), so new ones respond to price signals rather than create the market. In the longer term there is evidence that very large levels of housebuilding, additional to current supplies and sustained over many years, would reduce house prices to levels lower than would otherwise prevail. A major study commissioned by the Chancellor after Kate Barker's review, led by academics at Reading University, modelled the changes needed. Many more houses would need to be built in the high demand areas than there are households to occupy them, so vacancy rates would increase and inward migration be encouraged. Even so, the margin by which affordability could be improved over a ten year period would be less than the deterioration in the period between 2000 and 2004. The clear implication of the report is that new housebuilding is a remarkably inefficient means of improving housing affordability. This reinforces the significance of ability to pay (including willingness to borrow) in shaping house prices.

Homes which are apparently similar in size and facilities can be worth startlingly different amounts in different regions, areas and even nearby streets. House prices are affected by matters such as:

- > property type (flat, or terraced, semi-detached or detached house);
- > property size and qualities (incl. number and size of rooms, plot size, and fittings);
- > location (such as proximity to employment and public transport);
- > the surrounding environment and facilities (e.g. the quality of the public realm, open spaces and views out);
- > the degree of competition in a locality where the number of properties is fixed, (such as whether the property is located within the catchment area of a good school).

The degree of influence which the planning system has over such matters varies. So far as existing homes are concerned, the role of planning in affecting

affordability is limited principally to affecting the nature of development in the surrounding area and its quality.

Planning can affect the affordability of new homes. Planning authorities can indicate the types and sizes of homes they expect to be built in an area to achieve a mix attractive to households at a range of price levels. They can require high standards of design both of the dwellings and the surrounding urban form, though these will again tend to raise house prices rather than lower them. The locational advantages or disadvantages of each place affect prices: although not all of these can be influenced by planning, choices made through the planning system on where to promote investment and regeneration can help to improve the relative attractiveness of places and raise environmental quality where this is most needed.

The quality of the environment surrounding a new home affects its sale price. The planning system aims to ensure that development is focused both where it is most needed and where it will do the least harm. Places noted for their landscape quality, wildlife or heritage interest, for example, can expect to have those special qualities protected by the planning system. The preference is for developers to provide a high quality environment: not by locating development where it can acquire for the purchaser alone some of the existing quality of a place, but by creating new value through investing in the quality of new schemes as a whole. This suggests that the assumption should not be made that building large numbers of houses in an area will necessarily cause local prices to decline over a period of time.

However, if large numbers of houses are built in a locality, and comparable new and pre-existing properties sell for similar prices – but less than before the development took place – should the price drop be attributed to the larger supply of houses meeting market demand or to the deterioration in the quality of the area caused by significant additional building? Mechanisms do not appear to be available at present to distinguish the house price benefits of new building from the house price costs.

A small selection of detailed case studies examine the outcome of these myriad influences by tracking the

interactions between demand (expressed through house prices and affordability ratios), new supply (completions) and land available for housebuilding (with planning permission and allocated for housing). In each case, data have been obtained for periods of at least ten years (so far as this is available) in order to identify longer-term trends rather than short term influences (comparable to the study by Reading academics). This breaks new ground as planning data are rarely integrated with housing market data over such lengths of time.

The case studies were chosen from a variety of housing market conditions:

- > Poundbury and West Dorset: this is a middle-income area chosen to test the impact of a major land release for a large high quality housing development;
- > Cambridgeshire: Cambridge is the quintessential boom town location of England with impacts well beyond the City Council area;
- > Gravesham and Dartford: these two adjacent districts in north-west Kent comprise part of the Thames Gateway growth area and are compared with experience in Kent as a whole;
- > Torridge: this is a remote rural area in Devon with a low-wage economy, but which is nevertheless experiencing significant house price increases.
- > Darlington: this unitary authority in North East England was selected to study land supply and completions in an area of low and relatively stable house prices.

In each area house prices have been increasing rapidly over the study period (as they have been regionally and nationally), including in Darlington, and affordability has deteriorated. In all areas the rate of dwelling completions appears to be barely related to house prices or affordability. For short periods, especially in the last couple of years, there is some evidence of building rates increasing, once significant house price rises had appeared, but there is no reliable evidence of high rates of housebuilding

holding down house prices. The weak responsiveness of the building industry to the market, as examined by Kate Barker, is confirmed in the case study areas. There was clear evidence from Poundbury that house prices in the vicinity had risen, not fallen, as a result of a large area of land being brought forward for development through the planning system.

The most striking finding from the planning data is that in all the different types of housing market studied there were ample – sometimes excessive – amounts of land available for housebuilding. This applied even in growth areas like Cambridgeshire. There was no indication that a shortage of building land was holding back housebuilding on any significant (even detectable) scale. Planning permissions in all areas were typically sufficient over the study period for four or more years of housebuilding. Land allocated for housing in addition to this was usually substantial. In areas with rising interest in housebuilding there was evidence that these allocations were converted to planning permissions when they were needed. As unimplemented permissions lapse after three years, this was to be expected.

There was no relationship identified between housing land shortage and high house prices. This is not surprising, given the large supplies of building land. The case study areas with the most rapidly increasing house prices and deteriorating affordability, Torrington, had the largest supply of land with planning permission in relation to completion rates. Where there was increasing market interest in housebuilding, local planning authorities tended to increase the supply of allocated land rather than allow it to diminish. A similar trend is identified in the heavily-pressurised South East region as a whole. In all case study areas the number of years' supply of land (permissions plus allocations), compared with the requirements in development plans, was greater in 2006 than its average in each authority over the previous ten years. In most cases there was sufficient land supply to last well over ten years.

This study throws doubt on Kate Barker's argument that lack of housing supply is a key factor underlying rising house prices: ability to pay appears far more important. Whereas her review asserted there was a

lack of land, without investigating this, the present study has shown that over many years each of the local authorities assessed has provided more than sufficient opportunities for house builders. This finding has major implications for Government policy on housing land supply. The current study by the Office of Fair Trading into housebuilding and land allocations provides an opportunity to explore these issues further.

Increasing land supply – that is, allocating land for development and then granting planning permission on it when developers submit planning applications – will not necessarily cause more dwellings to be built. The case studies have found a variety of market circumstances where the land supply made little difference: the decision to build (or not) was more strongly influenced by other factors. Those are more likely to be land-banking by the building industry, a more pragmatic assessment of the quantity of building which the market will sustain, risk aversion, and other structural problems within the building industry (notably involving deficient skills, innovation and competition).

For the planning system the implications are clear. Releasing more land in order to reduce house prices would not work. There is a clear requirement for sufficient sites to be available for development, with 'sufficient' in effect currently established in planning policy as five years' supply of deliverable land. Allocating more land may increase the flexibility on offer, but would create other costs. There would be more uncertainty about where development will take place and the risk that developers will spurn locations where new housebuilding can do the most good in favour of those which offer the highest profits. Resolving problems of housing affordability with the assistance of the planning system will require long term commitments to more planning rather than less, a co-operative approach to meeting wider social objectives, and an acceptance that the easy short term option of allowing the housing market to dictate the pattern of development would have to be foregone.



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Rural England

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The Campaign to Protect Rural England (CPRE) exists to promote the beauty, tranquillity and diversity of rural England by encouraging the sustainable use of land and other natural resources in town and country. We promote positive solutions for the long-term future of the countryside to ensure change values its natural and built environment. Our Patron is Her Majesty The Queen. We have 59,000 supporters, a branch in every county, nine regional groups, over 200 local groups and a national office in central London. Membership is open to all. Formed in 1926, CPRE is a powerful combination of effective local action and strong national campaigning. Our President is Bill Bryson.

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