Campaign to Protect Rural England

**A CPRE report**

# Planning for Housing Affordability

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

# Contents



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# 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 suggest 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, Torridge, 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.

# Introduction

‘Politics is the art of looking for trouble, finding it, misdiagnosing it, and then misapplying the wrong remedies,’ Groucho Marx.

High house prices lock up large amounts of personal capital which could be put to more productive uses, and make entry to home ownership difficult for first time buyers. How can the town and country planning system help to tackle this problem? This report examines the role of planning in balancing the supply of and demand for housing, and suggests what it can – and cannot – achieve.

Amid the vast quantity of commentary on house prices there is an argument that the planning system causes high house prices in the first place. In essence, the argument is that house prices are high due to a shortage of supply in relation to demand, and that the primary cause of that shortage is an insufficiency of land due to the constraints imposed on housebuilding by the planning system. Releasing more land will allow more building, so house prices will gradually fall over a period of time. This report assesses the details of this case. Intuitively believable though it may be, the argument is shown to be comprehensively wrong. The contribution of planning constraints to house prices in these terms is so marginal as to be virtually undetectable.

Planning does have an impact on the affordability of housing, but its most tangible effects work in other ways. This has important implications for planning policy on the supply of land for housing, which is one of planning’s most high-profile functions. This report considers those broader forces which underlie house prices and house price change.

The Government has put the affordability of private housing squarely on the planning agenda. For the first time, an objective of planning policy is to address affordability as well as to house households. The Government has established a National Housing and Planning Advice Unit to take this forward. This report offers a contribution on the direction which that work should take.

Any national or regional planning policies introduced to address housing affordability will affect areas with low house prices as well as areas where house prices are high. Policies for affordability must be workable in all these areas and be able to accommodate short term house prices fluctuations. The analysis must therefore examine how intervention through the planning system will affect not just the target of high house prices but the wider relationship between rich and poor areas, and between strong and weak housing markets. Failure to do this could have devastating consequences for communities suffering from housing market collapse as well as undermine the longer term goal of house price stability. If house prices in some areas are ‘too high’ and in some other areas ‘too low’, how can they each be coerced into a Goldilocks zone where they are ‘just right’?

# The Arrival of Affordability in the Planning System

## The Budget 2003

The Government's belief in a fundamental link between the housing market and the planning system was crystallised in the Chancellor of the Exchequer's Budget Report 2003. In a wide-ranging assessment of the housing market, the Chancellor aimed to bring stability instead of volatility to house prices, increase housing supply, and promote stability in the wider economy. An underlying objective was to promote the economic conditions which would allow the UK to join the Euro. The Budget Report commented that 'The effect the housing market has on macroeconomic stability will be much more significant should the UK join EMU. The housing market forms an important part of the monetary transmission mechanism – the means by which interest rates affect the wider economy' (paragraph 3.116).

The Government placed responsibility for the achievement of these circumstances primarily at the door of the land use planning system:

'...further significant changes in the planning, supply and finance of housing will be required to address both demand and supply in the housing market to tackle market failures, significantly increase the responsiveness of supply to demand, and reduce national and regional price volatility. This includes requiring new Regional Spatial Strategies to take account of volatility in the housing market and promote macro-economic stability as part of delivering sustainable development; tough and credible measures, including intervention, where local authorities are not delivering housing numbers in high demand areas; and exploring whether, in the medium term, achieving our objectives will require a system of binding local plans' (paragraph 2.78).

This sent a shockwave around the planning system. Although used to being called upon to address many objectives simultaneously, planners had never thought their modest role in promoting good use of land to be pivotal in reducing house prices, addressing market volatility or delivering macro-economic stability. That the Chancellor should believe that planning could contribute in a meaningful way to any of these objectives was worrying enough. His conclusion that planning presented a problem to be resolved, in advance of any thorough assessment of its role, was positively alarming.

There appeared to be one particular fact which the Treasury wanted to explain: why was it that in an era of rapidly rising house prices the housebuilding industry didn't build significantly more houses? The Budget Report recorded:

'The weak responsiveness of new housing supply to rising house prices is a complex problem. In the light of its reforms to the planning system, the Government has therefore asked Kate Barker to conduct a review of issues affecting housing supply in the UK – in particular to look at the role of competition, capacity and finance of the house-building industry, and possible fiscal instruments, and the interaction of these factors with the planning system and sustainable development objectives' (paragraph 2.77).

The Treasury was nonetheless confident it knew the answer to its question to be inadequacies in the planning system: 'The Government is also committed to ensuring, through intervention if necessary, that local authorities in high demand areas deliver housing numbers set out in Regional Planning Guidance. Local authorities should not just be operating the planning system but also ensuring that the necessary level of housebuilding actually happens' (paragraph 3.120). The planning system does not carry out development itself, of course: it can, however, facilitate the circumstances in which housing developers wish to invest their money.

## Review of Housing Supply by Kate Barker

Following an Interim Report in December 2003, Kate Barker published her *Final Report – Recommendations* in March 2004. Her proposals for the planning system

formed a critical part of this, with 15 of her 36 recommendations affecting planning. At the heart of these recommendations was the idea that planning should take more account of market information about the level of housing demand and release more land accordingly. She summarised the issue as follows:

'Central to achieving change is the recommendation to allocate more land for development. This certainly does not mean removing all constraints on land use, on the contrary the review advocates more attention be given to ensuring the most valuable land is preserved. But house builders would have greater choice as to which sites to develop, increasing competition. And it would also allow a quicker and more flexible response to changing market conditions on the upside' (Executive Summary paragraph 21).

Tackling the affordability of private housing was a key issue in Kate Barker's recommendations (see Box 1). The belief that planning could demonstrably influence house prices, and that releasing more land was the key to improving affordability, was made abundantly clear: 'A key factor underlying the lack of supply and responsiveness is an inadequate supply of developable land. More land will need to be released or made viable for development, if housing supply is to increase' (paragraph 1.6). The analysis behind this supposition, however, was largely missing from the published material.

### *Affordability Targets: Implications for Housing Supply* by Geoff Meen and others

The Government immediately welcomed the Barker report, with the Chancellor's Budget Statement 2004 reporting 'The Government will establish a long-term goal for affordability in the housing market incorporated within the PSA process as recommended by the Barker Review. This goal will need to be reflected at a regional level through regional targets as part of the process of setting regional housing numbers' (paragraph 3.100). However, regional and local housing models to tie house prices and affordability

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***Box 1: Kate Barker's Review of Housing Supply***

***Recommendations on housing affordability***

***Recommendation 1:***
*Government should establish a market affordability goal. This goal should be incorporated into the Public Service Agreement framework to reflect housing as a national priority.*

***Recommendation 5:***
*Each region, through the Regional Planning Body (RPB) should set its own target to improve market affordability. Taken together, the regional targets should be consistent with the Government target (Recommendation 1), although individual regions will differ. There is also merit in RPBs specifying sub-regional targets which may include floors and ceilings.*

*Indicative net housing targets for the region and local authorities should be produced, by the Regional Planning Executive (Recommendation 6), in order to aim to achieve this market affordability target. Government should provide regions with clear guidance on the methodology to achieve this. These housing targets would be set over a 5-10 year period as a trajectory. However, the targets and trajectory would not be fixed and would vary as a result of increased flexibility at the local authority level (Recommendation 9). They would also be revised in either direction if monitoring of the affordability target demonstrated that the region was not moving towards the desired outcome.*

into the wider economy did not exist to do this. To tackle the problem, the Government commissioned a panel of academic economists to fill the gap, led by Professor Geoff Meen of Reading University. They were charged with developing an economic model which would allow affordability targets to be translated into regional housing targets (though not to specify affordability targets themselves).

The economists' report *Affordability Targets: Implications for Housing Supply* ('the Reading report') was published in December 2005 together with a computer-based model. The findings of the study are outlined in chapter 3. Offered as a work in progress rather than a definitive product, the model was presented as having both advantages and limitations. It functioned nationally and across the nine regions, but needed further work to be usable subregionally. It handled migration between regions, but treated international migration as externally driven rather than affected by forces such as the labour market or housing market. It addressed house prices in the private sector, but treated renting as a residual (rather than integral to the private housing model) and drew no distinction between private and social renting. It accommodated the additional consumption of housing

***Box 2: PPS3 Housing***

***Extracts on the Government's commitment to affordability in the housing market***

*'This PPS reflects the Government's commitment to improving the affordability and supply of housing in all communities, including rural areas, informed by the findings of the Affordable Rural Housing Commission' (paragraph 3).*

*'The Government's key housing policy goal is to ensure that everyone has the opportunity of living in a decent home, which they can afford, in a community where they want to live. To achieve this, the Government is seeking:*

> *To improve affordability across the housing market, including by increasing the supply of housing' (paragraph 9).*

*'In determining the local, sub-regional and regional level of housing provision, Local Planning Authorities and Regional Planning Bodies, working together, should take into account:*

> *Evidence of current and future levels of need and demand for housing and affordability levels based upon:*
  > *local and sub-regional evidence of need and demand, set out in Strategic Housing Market Assessments and other relevant market information such as long term house prices.*
  > *advice from the National Housing and Planning Advice Unit (NHPAU) on the impact of the proposals for affordability in the region.*
  > *the Government's latest published household projections and the needs of the regional economy, having regard to economic growth forecasts.*

> *The Government's overall ambitions for affordability across the housing market, including the need to improve affordability and increase housing supply' (paragraph 33).*

by existing households that would follow from greater supply and lower prices, but was not specific about the other impacts this would have on quality of the housing stock, vacancies and demolitions (these too were external to the model, though allowed to vary). It had a measure of simplicity, but this looked likely to be lost if the other deficiencies noted were rectified.

The Reading report nonetheless reinforced the Government's commitment to its previously-stated principles. On the day it was published, the Government issued its full response to Kate Barker's report, and the Chancellor announced in his Pre-Budget Statement that 'The Government also accepts Kate Barker's proposal that the planning system should reflect long-term objectives for affordability, set out at both the national and regional level. The Government will bring forward detailed proposals as part of the Comprehensive Spending Review process in 2007' (paragraph 3.124).

## National Housing and Planning Advice Unit

The Reading report provided the foundation stone for the work of a new National Housing and Planning Advice Unit (NHPAU) set up by the Government in November 2006 to carry forward its commitment to using the planning system to make housing more affordable. The primary objective given to NHPAU was 'to advise the Government and the regions on the implications for the level and broad distribution of future housebuilding of the Government's national ambitions for long term market affordability and housing supply.' The full terms of reference are set out in Appendix 1.

## Planning Policy Statement 3: *Housing*

The Government has also revised planning policy to promote housing affordability, reflecting the Treasury's views. In November 2006 the Department for Communities and Local Government replaced the ground-breaking Planning Policy Guidance note 3 *Housing* (March 2000) with Planning Policy Statement 3 *Housing* which pointed in quite another direction. Out went the 'sequential approach' which prioritised housing supply on previously-developed urban land, and in came a more demand-led approach to the quantity and location of new housebuilding. Affordability of market housing too arrived as a clear objective (which had been absent in PPG3): details are given in Box 2.

The sequence of events since the 2003 Budget demonstrates the unwavering commitment of the Government, led by the Treasury, to the notion that the planning system bears some – even much – responsibility for high house prices, and that a more generous supply of land will enable more houses to be built and prices to drop.

# Is Private Housing Affordable?

The presenter of the television programme 'Property Ladder' was recently asked if she thought property was overpriced. Sarah Beeny's typically shrewd answer was 'overpriced is a difficult word. It's a matter of what people are prepared to pay and if people are prepared to pay it, its not overpriced. Whether it's sustainable is my concern' (*The Guardian* 9.5.07). Affordability is not simply a matter of house prices but of prospective purchasers' ability or inclination to pay. This chapter sets out some basic information and commentary on these topics.

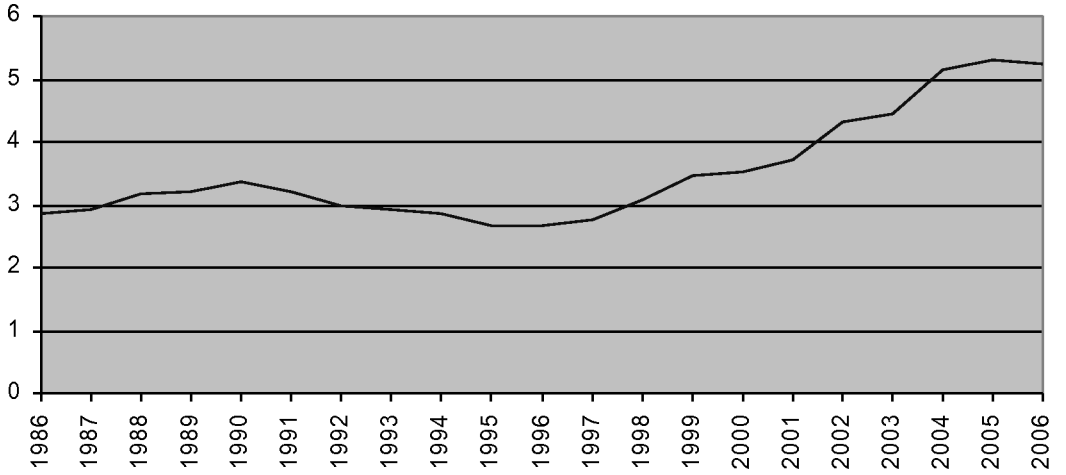
## House prices and household budgets

Figure 1 tracks house prices (paid by first-time buyers) in relation to earnings (all individuals in full-time employment), indicating that the current price boom has sent prices proportionately much higher than they reached even in the previous peak in 1990.

Most home buyers rely on a mortgage to buy a home. For them, the central issue is not so much the headline price of a house but the monthly repayments they will make to their mortgage lender in order to be able to occupy it. The level of repayments they can afford is then a matter for their judgement, depending principally on their assumptions about their future income, other outgoings, and the cost of borrowing for their mortgage. The issue is especially important for first-time buyers: the cost of a major purchase is particularly challenging for younger buyers, whilst the health of the whole market is affected by the scope for new entrants. Figure 2, used by the National Housing and Planning Advice Unit, tracks for first-time buyers mortgage payments as a proportion of incomes over nearly three decades. Figure 2 also tracks average mortgage interest rate showing that until about 2004 monthly mortgage repayments reflected quite closely the mortgage interest rate at the time.

Figure 2 shows that for most of the 1980s first-time buyers on average used a larger proportion of their income on mortgage repayments than they do now. It suggests that the current house price boom has still not prompted the degree of pain in household finances experienced in the previous housing boom up to 1990. However, the average figures mask other changes in circumstance and great variety in individual households' ability to pay. Some changes have made mortgages more affordable. One is that our society has become wealthier in the last 17 years, with the majority of households having more surplus cash after securing basic food, warmth and shelter. Another is that the rising activity rate amongst people of employable age means that more individuals can now contribute to housing costs. There will therefore be many households who could, without greater difficulty than in 1990, devote a larger proportion of household income to housing if they so wished.

***Figure 1: House price to earnings ratio (first time buyers)***




Source: Professor Steve Wilcox

Against such experiences, other owners will be experiencing greater stress in meeting their mortgage repayments. One change is that higher divorce rates and declining household sizes mean that more individuals are funding their housing costs single-handedly. Another is that the proportion of home-owning household has risen since 1990, with more households generally being closer to the margins of being able to afford a home: these less wealthy households will struggle disproportionately if the fraction of their income which they must devote to mortgage repayments rises significantly.

## Measuring the cost of housing

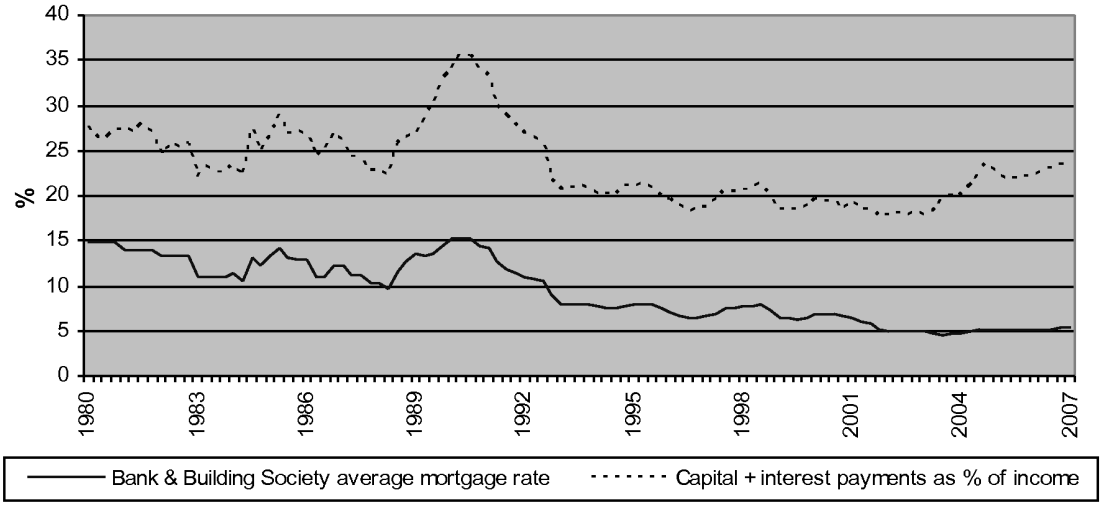
Affordability is often expressed as the ratio of incomes to house prices. This is because the size of a mortgage which a bank or building society will lend to a purchaser is usually based on a multiple of their income, not least as most households pay off their mortgage costs from regular income. The precise measures of 'income' and of 'house price' chosen to describe the state of a housing market are usually selected for the particular purpose of the analysis being carried out. 'Mean' income and house price figures are a reasonable expression of circumstances across a housing market as a whole, though sometimes 'median' figures are selected in order to remove the disproportionate impact of extremely wealthy people and very expensive homes.

For first time buyers with modest resources, however, the real issue is their chance of access to entry-level housing. This is typically a 'second hand' rather than a new home, and more likely to be a flat or terraced property than a detached or semi-detached house. The Government's favoured measure of affordability with an eye to first-time buyers is the ratio of lowest quartile property price to lowest quartile income. Map 1 over shows house price affordability on this measure at the regional level around England.

Earnings data usually refer to an individual's earnings, as this is the data supplied in the key Government source, the *Annual Survey of Hours and Earnings*. However, household incomes are the ideal information to compare with house prices, to reflect the ability to pay of households with more than one earner. Some progress has been made in calculating this at the district level (with a bespoke data-set prepared by Professor Steve Wilcox at York University) though the results are not sufficiently robust for the purposes of this study.

Incomes have increased in real terms over the last decade. For most years since 1997, gross weekly earnings of full-time employees at both the top and bottom ends of the income distribution have increased above the rates of the retail prices index and the consumer price index[1]. This suggests that those in employment will generally over time have had more

***Figure 2: Lending and affordability (first time buyers)***




Source: Council of Mortgage Lenders

surplus money available, perhaps to spend on housing. Incomes from employment have increased fairly evenly throughout most of the income distribution: the ratio of the highest to the lowest decile for gross weekly earnings gives a measure of the distribution of weekly pay, and this has remained almost unchanged from 3.5 in 1997 to 3.6 in April 2006. However, the income distribution has progressively skewed above the top decile: gross weekly earnings of full-time employees within the top 10% of incomes grew by 4.2% in the year to April 2006, whereas those in the lowest 10% saw their income grow by just 3.7%. This faster growth in income at the top of the income distribution has arisen in seven of the past nine years[2]. This impact on incomes will have allowed house prices to rise more steeply at the top end of the market, resulting in some elongation of the range of house prices in this sector.

## Funding the cost of a home

The affordability of housing is affected by much more than incomes: it is wider 'ability to pay' (and inclination to pay) which is setting prices[3]. The wider resources available to prospective purchasers are important and vary considerably, depending on whether they have:

> an existing property to sell;

***Map 1: Ratio of lower quartile incomes to lower quartile house prices***


Source: DCLG Live Table 576

> inherited wealth to contribute a deposit on the purchase price;

> other wealth to contribute to the purchase price.

With rapidly rising property prices in recent years, purchasers with a property to sell will have a much more modest financial gap to bridge (if they are trading up) than will purchasers without this. They are at a major advantage over first-time buyers. Inherited wealth is also making a significant contribution to purchase prices. A report by the Council of Mortgage Lenders Affordability – are parents helping? (May 2007) shows that in 2006 about 80,000 first-time buyers under the age of 30 (38%) received parental assistance with their house purchase, and that this was worth on average about £19,000 (but with considerable regional variations). Much of this money is itself derived from the value extracted from parents' property, reinforcing the benefits to extended families already within the home owner sector. Recycling money in this way, in effect ploughing more money into the housing market, has the effect of pushing up house prices: significant numbers of prospective purchasers have a means of standing on financial tiptoe with the result that none of them really benefit.

Other wealth can be significant too, especially at the top end of the housing market where bonuses particularly from the financial services sector are put into luxury housing and elongate the housing market. Similarly, the purchase of properties at the higher end of the market in London, by 'non-domiciles', is thought to be having repercussions within the property market in London and the South East[4].

Affordability is also heavily affected by a purchaser's access to other people's money as well as their own. The cost of borrowing is of major importance in understanding house prices. Key issues are:

> mortgage interest rates;

> mortgage lending policy.

Higher interest rates makes mortgage borrowing more expensive, which in effect reduces the amount that borrowers can pay for a house and therefore dampens house prices. However, in the short term, a rise in mortgage interest rates will simply require borrowers to pay more: they cannot immediately move to a cheaper property to bring their borrowing costs down. The effect of this was indicated in Figure 2 above. The Bank of England Monetary Policy Committee (MPC) is charged by the Chancellor with setting interest rates with the objective of keeping the annual rate of inflation below 2% per annum. The minutes of the Committee's monthly meeting show that the state of the housing market is one of the considerations in the monthly decision on interest rates. Sometimes interest rates are changed partly because of the housing market: bringing down house price inflation has widely been viewed as one reason for the MPC's progressive nudging-up of interest rates since 2006 and was noted in contributing to the decision of the Committee to raise the Bank rate at its November 2006 meeting, for example (Minutes, paragraph 32). Changing the ability to pay clearly has a direct short term impact on house prices. Interest rate changes have a much more rapid impact on house prices than the land use planning system could possibly have: the process of allocating land for housing, applying for and obtaining planning permission, and then building and selling houses is a much more drawn-out process.

A decade and a half of rising house prices has dulled memories of previous house price cycles and of periods when interest rates were substantially higher than they are now: Figure 2 shows that mortgage interest rates, which reflect Bank of England base rates reasonably closely, reached 15% in 1990. However, the recent rise in interest rates has had an impact on house prices and has now (spring 2007) prompted large downward revisions to estimates of house price inflation. According to David Miles' report for the Treasury on The UK Mortgage Market: Taking a longer term view (March 2004, Table 6.1)[5], a 1% increase in interest rates will in the long run reduce UK house prices by around 4.4%. 1% is the amount by which UK base rates rose in the nine months to May 2007. Conversely, would reducing interest rates by 1% raise house prices by the equivalent 4.4%, or has the 10% reduction in interest rates since 1990 caused house prices to rise by 44%?

Lenders will offer mortgages only to house purchasers who are expected to repay the money, with interest. Borrowers meanwhile wish to limit their exposure to the risk of not being able to meet their repayment obligations and therefore of having their home repossessed. Nonetheless, the Council of Mortgage Lenders reports clear evidence of first time buyers borrowing larger multiples of their incomes (after whatever deposits they have been able to make). Although the typical income multiple for a first-time buyer was a reasonable 3.3 in the first quarter of 2007, this overall figure masks a rise in the proportion of first-time buyers borrowing over four times their income: this rose from 11% of them in April 2005 to 21% in March 2007. Many mortgage lenders offer loans at much riskier levels than historically considered appropriate, with Scottish Widows Bank for example offering graduates up to 5 times income. However, where purchasers have placed significant sums of their own money as deposits, much of the risk of any decline in the market will be borne by the borrower. Perhaps because of this increased exposure to risk, the number of first time buyers has held firm despite the rise in house prices. The Council of Mortgage Lenders has recently stated that 'we can at the very least be confident that since 2004 there has not been a decline in first-time buyer activity as a proportion of house purchase lending' (*Affordability – are parents helping?*, May 2007). Fears for prospective new entrants to the housing market should not be overstated.

## Housing as an investment

Housing in English society has for many come to represent far more than a roof over one's head, or an expression of lifestyle. It is also many households' principal investment. The attractiveness of property as an investment will affect purchasers' judgements about its affordability: as well as the cost of outgoings, purchasers will consider the scope for benefiting from an appreciating asset. The large number of investors in 'Buy to Let' homes is a measure of confidence in the housing market and is itself contributing to higher prices. A house is an asset against which cash may be borrowed, or occupants may visualise 'downsizing' later on and pocketing the cash difference between the sold and bought properties. The anticipated direction of house prices in future is therefore a significant consideration to purchasers buying a home as an investment. This assessment requires a complex judgement about matters such as the state of the economy in years ahead, interest rates, the relative desirability of the property's location, and whether property is currently under-priced or over-priced. In short, the risk attached to an investment is a matter of the purchaser's confidence in the local housing market.

Confidence can be built up with stimuli such as a strong economy with low unemployment, by better anticipated rates of financial return from property compared with other investments, and by low and apparently stable interest rates. In periods of buoyancy in the housing market and confidence about the future, rising willingness to pay prompts vendors to raise prices. Rising prices confirm purchasers' confidence, and a house price 'bubble' may emerge. Conversely, falling prices can deter investment in property, depressing prices further and generating a slump. House prices therefore respond not only to tangible stimuli but also to prospective purchasers' perceptions.

Whether the current housing market is exhibiting the signs of a price bubble is hotly contested: do house prices fairly reflect ability to pay, or have house prices risen too far on the back of expectations of further house price rises? Some high profile commentators believe there is a speculative bubble in the market which must eventually deflate or burst, including David Miles and the International Monetary Fund. On the other hand, opponents of this view maintain that:

> there is insufficient housing stock: demand hugely exceeds supply;

> population growth is strong, including migrants into the UK;

> mortgages remain affordable, particularly compared with the late 1980s;

> the strength of the London commercial sector will sustain demand.

## Conclusions

Conclusions from these influences on housing affordability are principally that:

> house prices primarily reflect how much buyers will pay;

> income remains an important determinant of ability to pay, as this affects access to borrowing, but wealth from a variety of sources is affecting the deposits which purchasers can make on a home;

> putting more money into housing (e.g. with parental assistance, extra borrowing, or deposits of capital from other sources) gives an immediate advantage to the purchaser but also pushes up house prices for everyone;

> the cost of borrowing and the amount that can be borrowed affect house prices;

> rising markets concentrate wealth in the hands of home owners, making access to housing financially more difficult for first-time buyers;

> the planning system is irrelevant to all of this.

House prices are fundamentally controlled by the 'demand side' rather than by the 'supply side'. Income, wealth and access to borrowing are critical. A recent study of the main drivers of local and neighbourhood housing market performance[6] concluded that the economy and employment were the main driving forces over wider areas, and access to jobs was important locally. The strongest difference between neighbourhood housing markets was explained by poverty: reviving housing markets in deprived areas would depend on raising local incomes and/or bringing in middle or higher income households. In affluent areas with affordability problems, providing affordable social housing will usually be the priority.

Kate Barker briefly recognised in her *Review of Housing Supply* the roles of income, mortgage finance, interest rates and speculation as influences on house prices, but treated these as matters which contributed to house price volatility – in the relatively short term – rather than having a long term impact. However, their consequences are also of much longer term interest. Mortgage costs as a fraction of incomes have only now returned to levels not seen for fifteen years, suggesting that there is a longer-term cyclical element in the housing market as well as short-term volatility. Also in the longer term, there are important financial stimuli which affect affordability, independent from the construction of new homes: for example, greater wealth built up in society over time allows more money to be put into housing; while the way the economy is managed affects the resources people have to spend on housing.

Distinguishing short term from long term changes in the housing market is nonetheless crucial and at the heart of the Barker analysis. She recognised that 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 (paragraph 1.27). The longer term relationship between housebuilding and house prices with which she was more concerned has been further studied in the 'Reading' report, reviewed in the next chapter. This makes most of its assessments for affordability targets for a period of at least a decade, to 2016, in effect expecting to see house price changes over that period as a result of the increases in housing supply which it models. The trend-based assessments presented in case studies in chapter 5 below similarly aim to address at least a decade's data, so that short-term volatility issues can be neglected.

# The Reading Study of 'Affordability Targets'

One of the influences on house prices is the number of houses available. The Reading report, *Affordability Targets: Implications for housing supply* (December 2005) by Professor Geoff Meen and others for the Government, set out to explain this relationship. This would enable the likely reduction in house prices to be identified from a specified increase in dwelling supply. This chapter summarises the findings of the report and offers a commentary.

## Findings

The Reading report took as its base case the rate of housing supply planned for in Regional Planning Guidance (as at 2004), plus the additional 200,000 houses over ten years (20,000pa) already added to that by the Government for development in four growth areas. The housing supply scenarios which the study modelled were those previously used for illustrative purposes by Kate Barker: additions of 20,000, 70,000 and 120,000 extra dwellings annually. These were reduced by the Government's extra 20,000pa to produce scenarios of 50,000 and 100,000 extra homes annually. An additional 'low' option of 25,000 extra was also modelled. These additional supplies were assumed to apply annually for ten years (2007 to 2016), after which the extra supply would cease.

Each of the three growth scenarios was distributed amongst the English regions in three ways:

> all the extra construction takes place in the four southern regions (South East, London, East and South West);

> all the extra construction takes place in the four southern regions and in the East Midlands and West Midlands;

> construction is spread over all nine regions.

In addition, two versions of the model were prepared, the principal difference between them in effect being the assumed speed with which the market would respond to the impact of increased housebuilding.

***Table 1 Percentage reduction in affordability ratio resulting from additional housebuilding in southern regions 2007-2016 (%)***

| ***Region*** | ***Additional dwellings built per annum*** | | |
|---|---|---|---|
| | 25,000 | 50,000 | 100,000 |
| South East | 5.4 | 10.5 | 20.0 |
| London | 4.0 | 7.7 | 14.7 |
| East | 5.6 | 10.9 | 20.4 |
| South West | 5.6 | 10.8 | 20.3 |
| East Midlands | 2.4 | 4.6 | 9.2 |
| West Midlands | 2.3 | 4.6 | 8.8 |
| Yorkshire & The Humber | 2.6 | 5.1 | 9.7 |
| North West | 2.3 | 4.6 | 8.9 |
| North East | 2.1 | 4.2 | 5.4 |
| England | 3.8 | 7.4 | 14.1 |

***Notes***
House prices and incomes at the lower quartile level

Source: Meen et al, 2005, *Affordability Targets: Implications for Housing Supply,* ODPM. Derived from Table 12a by Professor Steve Wilcox

(Both versions anticipated continued improvements in affordability after 2016 due to lags in the system, but the version which includes the effects of 'flows' – the short term additions to stock – shows a more rapid response by 2016 and less adjustment afterwards, compared with the version which models only the impact of changing the total 'stock' of housing .) Additionally, the house price projections in the study explicitly assume that there was no house price bubble at the time.

The study calculated the impacts of housebuilding on the housing market, principally using the ratio of lower quartile house prices to lower quartile incomes (which was the measure of affordability given to the team, which in turn emphasised the role of income in the assessment). Taking the most extreme assumptions tested, the following results arose in the South East region (where the Government assumes demand is particularly pent-up). If an additional 100,000 houses were built in England each year, but concentrated in the four southern regions, the South East would take an extra 30,900 dwellings per annum between 2007 and 2016. Then, on the further assumption that house prices would respond more quickly rather than less quickly (of the two versions modelled), houses would become more affordable with the affordability ratio dropping from 7.59 to 6.07 in the region after ten years of that extra supply. Even when the building is concentrated in the four southern regions, other parts of the country gain some affordability benefit, as Table 1 indicates.

The main conclusion reached by the Reading report was: 'large increases in construction do have significant effects on affordability, measured in terms of the ratio of lower quartile house price to incomes. But the increases in construction have to be large. Furthermore, the improvements in affordability are permanent, reflecting the increase in supply' (page 48).

## Implications

The improvements in affordability modelled in the Reading report should be set against recent trends. The Reading report acknowledged that during the current house price boom the national affordability ratio rose from 3.46 in 1993 to 6.23 in 2004. Figure 2 of the report also showed that the affordability ratio in the South East increased from less than 5.5 to more than 7.5 between 2000 and 2004 (at median prices). These increases were far greater than additional supply could reverse after ten years of a doubled dwelling construction rate. These recent trend figures suggest that there were other forces at work in South East England which had a much greater impact on affordability than can be explained by housebuilding rates.

The Reading report followed Kate Barker in making the assumption that a rising affordability ratio (of house prices to incomes) 'might be a signal that the housing market was overheating and that land needed to be released for development so that increased supply would damp down an incipient house price boom' (page 52). The Reading model examined a theoretical relationship between house prices and housing supply: like the Barker *Review of Housing* it did not study at all the availability of building land. The suggested solution could reasonably be described as a leap of faith, with no evidence to show how it would work. In practice the period of deteriorating affordability in the South East between 2000 and 2004 coincided with a rising rate of housebuilding, albeit from a low base in relation to household formation, as Table 2 in this report shows.

The supply of building land also rose at this time, increasing from 169,395 plots allocated or with permission in 2000 to 235,136 in 2006 (enough for seven years' supply at 2005-06 building rates or well over eight years' supply at the current policy rate of 28,050pa). While there might be a theoretical argument that observed house price increases might have been even more pronounced but for the increase in housebuilding, the data do not support a case for using land releases, or even housebuilding, as an efficient means of improving the affordability ratio.

The Reading report authors played down the obvious conclusion. Their model showed building houses to be a remarkably ineffective means of improving affordability. Affordability would improve marginally as a result of building all these extra houses, but in 2016 the affordability ratio would still be 6.07. At this level, prospective purchasers without capital to use as a deposit would still be quite unable to obtain a

mortgage. The correct conclusion to draw from the model is that, in the market sector, increased housebuilding will enable some additional households to be housed, but it is a delusion to believe that house prices would be brought down significantly in the process. The benefits for affordability of massively increasing housebuilding would therefore be very modest, and barely detectable in scenarios with lesser rates and a wider geographical spread of housebuilding.

In addition to these limitations the Reading model is in any event worryingly detached from reality. The report acknowledged that demographic projections show that insufficient households would exist to occupy the additional 100,000 homes modelled to be built every year for ten years. It argued nonetheless that:

> demand (which affects affordability) differs from need;

> extra building would allow additional households to form;

> more households would be able to afford to migrate to southern England;

> additional international migration would be encouraged into England;

> more people would own second homes; and

> more dwellings would be vacant (or existing ones demolished).

The report makes no judgement on whether such large increases in housing supply could be justified to achieve these results (which some observers may see as problems in themselves rather than benefits). The unstated consequence of the highest levels of additional housing supply would be to create many more areas of 'low demand', where a substantial surplus of property would hasten housing market failure. Not mentioned are the cost to the Exchequer of tackling the difficulties this would create, or the formidable challenges for communities affected by market failure (as experience in the Housing Market Pathfinder areas testifies). Nor does the report address the question of why housebuilding companies might wish to flood the market with their products in order to depress their sale prices.

The unreality of the Reading report's highest scenario of housebuilding is underlined by the fact that no party engaged in the planning system has requested that such building rates be enshrined in planning policy. In the South East region, the current policy rate for housing supply is 28,050 annually, plus part of the 200,000 houses in the additional growth areas of Ashford, Thames Gateway and Milton Keynes/South Midlands (though none in the M11 corridor which is outside the region). At the Examination-in-Public into the South East Plan in 2006-07, the maximum annual rate of housing supply requested by any party was

***Table 2: Dwelling completions in the South East region***

| ***Year*** | ***Completions (net)*** |
|---|---|
| 2000-01 | 23,130 |
| 2001-02 | 25,447 |
| 2002-03 | 24,725 |
| 2003-04 | 28,447 |
| 2004-05 | 32,050 |
| 2005-06 | 33,309 |

Source: South East England Regional Assembly

41,880, compared with well over 60,000pa implied by the most extreme option modelled in the Reading study (28,050 + 30,900 + an allowance for part of the 20,000pa). The building rates needed to achieve the modest improvement in affordability in the South East modelled by the Reading team are therefore unlikely to be sanctioned by the Government.

The report notes the difficulty of using a target affordability ratio in London as a means of reducing house prices: it accepts that there would be little point in using the ratio as a trigger for further land releases in London because there is little further land to be released. The same can be said for other large urban areas with closely drawn administrative boundaries. In the longer term, a policy of simply releasing land would hasten the day when further unconstrained land within an authority was no longer available.

Finally, the report hints at the weaknesses in its own arguments by noting the strength of demand-side influences on house prices:

> strong growth in house prices relative to incomes in recent years was a function of low levels of nominal interest rates, and the report correctly projected that, with this adjustment over, in some regions affordability would improve in the short term after 2004 because earnings would rise faster than house prices (page 33 and Figures 2 and 3);

> the study assumed interest to be approximately constant over the period reviewed, but this had a bearing on how best to meet any affordability target: 'since house prices are sensitive to interest rate changes, this illustrates one of the problems of targets set in terms of prices to income ratios. The easiest way of meeting this target is to raise interest rates. But this is hardly the required outcome' (page 43).

In effect the report is acknowledging the reality outlined in chapter 2 above that financial issues which affect demand for housing have a much greater impact on house prices than additional housebuilding.

## Conclusion

The Reading report model of the relationship between housebuilding and house prices found that only the construction of very large numbers of houses would have much impact on affordability. It failed to mention that such high levels of housebuilding were most unlikely: no-one is in practice requesting them and the households to occupy them do not currently exist. In consequence, the policy would increase vacancies, increase inward migration to high demand areas and in some areas exacerbate housing market failure. In the absence of very large rates of building, the affordability benefits would not be achieved.

Setting affordability targets based on the Reading model would be impractical for application to land use planning in London and other urban areas, where land is simply not available for building the additional houses. Significantly, the Reading research did not investigate the availability of land for housebuilding, nor the relationship between additional land releases and actual housebuilding rates. Had it done so in areas like the South East, which it expected to benefit most from its proposals, it would have found that building rates and land supplies were already rising but having no obvious effect on affordability (which continues to deteriorate). The most charitable conclusion that can be reached as a result of the Reading report is that building large numbers of additional houses is a remarkably ineffective way of trying to reduce house prices, and the report itself hints that this is indeed the case.

# House Prices: What Are We Paying For?

Homes which are apparently similar in size and facilities can be worth startlingly different amounts in different regions, areas and even nearby streets. Why? This chapter explores some of the influences and investigates the impact which land use planning might have on affordability locally.

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).

## Planning and the affordability of existing homes

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. The value of any home is significantly affected by its environs – purchasers are not simply buying what is inside the property boundary but are buying into the qualities of the vicinity. Property owners understandably welcome local environmental improvements and resist developments which would reduce the quality of the neighbourhood, both because of the immediate impact on amenity and because of the potential reduction in their property value.

Planning works to improve communities and environments. This tends to push prices up, not down, all other things being equal. Housing tends to be more expensive in places with attractive environments than where the local environment is run-down. In many cases, the attractiveness itself owes much to good planning of the area, preventing inappropriate uses of land and buildings and insisting on appropriate new development which is designed to high standards and supports quality in the public realm. Perversely, housing would be more affordable in such areas if planning powers were less effective. Granting planning permission for damaging and intrusive developments which harmed local neighbourhoods would be the quickest way by which planning powers could be used to make housing more affordable!

To help meet housing needs, planning must facilitate development and create attractive places where people want to live. It is now faced with the challenge of improving affordability. The thrust of Government policy is increasingly to support high quality places so that everyone can live in an attractive environment. It is not to encourage late-night clubs, waste disposal sites, motorbike scrambling and other 'bad neighbour' developments as close to as many people's homes as possible!

New infrastructure also affects house prices. A planned road or tram system, for example, can improve the accessibility of existing property and raise its value, though the same developments can devalue nearby homes due to the adverse effects of noise and interference with local amenities. For example, the extension of the London underground Jubilee Line to Stratford, opened in 1999, suddenly made new parts of east London accessible to central London, rapidly inflating residential and commercial property values in the area. A study by Jones Lang LaSalle for Transport for London in 2004[7] estimated that between 1992 and 2002 the uplift in property values in Canary Wharf alone was towards the top end of the range £755m to £1.9bn due to the railway. The Jubilee Line Extension is commonly held to have cost £3.5bn to build but raised property values by £13bn. Canary Wharf developers contributed £180 million towards the cost of the line, but most of the gain in value was retained by existing property owners in the area opened up.

There have been numerous studies of the effect which specific types of development, infrastructure, services and environmental qualities can have on house prices

nearby. Of these, four possible influences are outlined below. Some of these matters, such as access to high quality open space, can be influenced by land use planning decisions, whereas others cannot, such as location within the catchment area of a popular school.

**Urban green space**

Parks and green spaces enhance quality of life and give local neighbourhoods a sense of place and identity. Some places have been transformed through the improvement of the quality of their parks and green spaces. This can create economic benefits too. A study by the Commission on Architecture and the Built Environment[8] included a property valuation exercise to isolate the impact of specific parks on surrounding domestic property values, by controlling all other external factors. The positive premium on house prices due to the park vary according to the type of park, the layout of surrounding property (e.g. overlooking the park rather than backing onto it), and to some extent the nature of the local population and type of property. The spread of property values away from a park would suggest that the cumulative influence of a network of parks and green spaces has the potential to achieve wider value uplift.

In most of the cases studied, properties that directly overlook a park cluster at around 5% to 7% above an identical property in the same market area, but outside the influence of the park. The range of values for being in the vicinity of a park – 'off park' – varied between 0% to 34% and the premium for overlooking a park – 'on park' – ranged from 3% to 34%. Most properties within two blocks of the park but which don't overlook the park directly show an uplift above those in the same market area but outside the influence of the park.

**School catchment areas**

Schools have fairly closely specified numbers of places to offer each year. Places at 'good' schools are often over-subscribed by parents keen for their children to enter them. One of the main criteria for school entry is usually residence within a defined catchment area, so prospective parents may try to move house to live within the catchment of their preferred school.

Numerous studies have measured the effect of this activity on house prices. For example:

> Hometrack examined property price changes in the catchment areas of the ten most improved schools in England between 2001 and 2005, finding that house prices in these areas had risen by 79% compared with 39% in surrounding areas;

> research at the London School of Economics published the Economic Journal[9] in November 2004 investigated many variables affecting the impact of schools on house prices, discovering amongst other factors that: just the top 10% of the school quality distribution generates most of the house price increases; primary school quality contributes more to house prices than secondary schools; and the added cost of a home with access to the very best state schools is surprisingly close to the total cost of school fees for comparable private schools;

> survey research by the Royal Institution of Chartered Surveyors issued in November 2006[10] found that rising house prices had reduced the premium that owners paid for houses within the catchment of 'good schools', from 12% in August 2003 to 8% three years later;

> research published in March 2006 in the Economic Journal[11] found that the premium paid for a house near a top over-subscribed primary school in London and the South East was £61,000, equivalent to a quarter of the price of the average house price in the area.

The proposal by Brighton Council in February 2007 to abandon school catchment areas and use a lottery to allocate school places deliberately challenged the relationship of good schools with the housing market. Because many places are currently taken by children whose parents can afford higher-priced homes within the catchment area, the measure would enable more children from less well-off backgrounds to gain access to over-subscribed schools. It could also cause a sudden reduction in house prices within the catchments of good schools.

### Wind farms

The complexities of pinpointing the impacts of any one influence on house prices is illustrated by a recent study of the impact of wind farms. A study for the Royal Institution of Chartered Surveyors[12] tried to isolate the house price effects of two wind farm developments in Cornwall. Having removed the effects of influences such as a sea view, the research suggested statistically that terraced houses within one mile of a wind farm were observed to be 54% lower in value, and semi-detached houses 35% lower, than similar houses at a distance of four miles. However, there was already evidence that wind farm developers were endeavouring to locate schemes away from settlements, and in one case study local estate agents considered that the history of the properties studied (as former Ministry of Defence homes) was a far more significant influence on values than the wind farm.

### Trees and property prices

Many studies have shown that trees contribute substantially to a person's feeling of satisfaction with the place they live[13]. Studies suggest that properties in tree lined streets command higher prices than similar types of properties elsewhere. This increase in value has been shown to be between 5-18%, the higher values occurring in areas of mature trees. Although most research on the subject is from the US[14], where the findings may not be directly comparable, UK studies have reached similar conclusions[15]. Other work in the UK by a district valuer, estimated that the creation of a woodland on a former colliery enhanced existing property values in the surrounding area by £15 million[16]. Further research is needed to determine the full influence of trees on house prices in the UK[17].

## Planning and the affordability of new homes

### House type and size

New housing development has a much wider range of impacts on affordability. 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. Also, monocultures of single dwelling types and single tenures are now generally avoided. There is a case for building small homes at relatively low prices for people only just able to enter the housing market, but the immediate benefit for affordability to the occupant must be seen in the context of a need for larger properties as households start to raise families. In the home ownership sector as well as the social sector there is a shortage of affordable family homes: overcrowding has become a significant consequence of rising house prices, putting larger homes out of financial reach of many who need them. The precise mix of housing in a development needs to take account of what is needed and what is already available locally.

### Design quality

The design quality of new development comprises two distinct elements: the build quality (and increasingly the environmental efficiency) of each dwelling, and the standard of urban design within which each dwelling sits. The influence of both together is illustrated below in the case study of Poundbury, West Dorset. Urban design has a significant impact on house price. Research recently carried out for the North West Development Agency and RENEW North West[18] concluded that good design can add value (in its broadest sense as a measure of welfare or utility) by making successful places, spaces and buildings. It estimated that an increase of up to 15-20% in rental or capital value can be added by good urban design. This can also accelerate the sales or lettings rate of a scheme and reduce its whole life costs. The research found that good design will not always add value or add it in the same way – much depends on the physical, economic and social context of each site – but the wider costs of bad design can be very substantial. The research showed that many aspects of good design do not cost more to get right than to get wrong. Better design can, however, result in increased financial costs (e.g. due to higher specifications, better infrastructure, and increased time to get the design right), though these can be passed on to occupants through higher values and, furthermore, tend to result in reduced costs for occupiers and the wider community over the life of a development.

**Locational advantage**

Planning by itself can barely change the strategic merits of different locations. Places within easy travelling distance of large employment centres are generally more expensive than more distant locations, for example. This raises strategic issues of affordability which the Government should address: if more places had real locational advantage (i.e. if London and the South East were not so dominant), then the affordability differences between places would diminish. What becomes important is where and how the Government invests for its impacts on house prices. For example, one clear intention of locating the Olympic Games 2012 in east London is to achieve long term regeneration of that area; similarly, investment in new universities and research facilities, bringing to an area long-term wealth-creating activities and the people to make them function, are recognised for their economic spin-offs. Where the Government deliberately invests public resources in areas needing regeneration, the expectation is that private capital will join in and economies grow.

**Environmental quality**

A high quality environment raises the selling price of a new home. The impact of environmental quality on local house prices depends in part on how new housing development is carried out. If a housing scheme is built within a pre-existing high quality environment, this will provide the developer with a valuable asset, but the impact on the prices of pre-existing houses depends on whether the new homes reinforce the qualities of the place or detract from it. If the new development causes the quality of the environment to deteriorate, such as by taking open space or blocking a pleasant view, the value of pre-existing homes in the area may decline. Conversely, where a housing scheme is built on previously nondescript or poor quality land, and the development process creates somewhere distinctive and special, the developer will be able to reap the benefit of the added value through a higher sale price than the area could previously have achieved. The value of nearby housing may rise if a neighbouring poor environment is replaced by a higher quality one.

Market forces alone in many instances cause existing environmental quality to be lost to short term profit, in a grand expression of 'the tragedy of the commons' (when it is in each individual's interest to pursue wealth from a public resource – 'overgrazing the commons' – even though this is clearly unsustainable and not in the interests of everyone combined). The introduction of the post-war planning system brought this market philosophy to a halt after the appalling damage to high quality environments in the 1920s

***Box 3: Didsbury Point, Manchester***

*The thirteen hectares of the former Withington General Hospital face onto the A5103 trunk road connecting the M56 to the centre of Manchester. Countryside Properties plc has transformed the site into an urban extension to South Didsbury, creating a mixed-use scheme of about 350 homes (completed), 25,500m2 of offices and other services (under construction). The residential elements feature highly contemporary buildings with individual characteristics and high quality finishes to create a varied street scene. Widespread consultation was carried out, which informed not least the masterplan's considerable attention to the site's sustainable transport options (with new cycle and pedestrian routes and facilities) and ecology. The attention to ecology has resulted in enhancement of the existing Paupers Wood, extensive new planting, a new urban park, and a wildlife corridor integrated into the landscaping between the urban park and Paupers Wood. The first phase of the scheme has won several awards for its design and environmental achievements.*

and 1930s, when the location of new housing had been barely regulated.

Development need not be like this, however. Enlightened development companies prefer to create value than to extract it. This has the advantage of being a philosophy which can be applied everywhere, and is also likely to bring public support – for the improved quality of places, for achieving much-needed regeneration, and for working with the grain of public opinion rather than in the teeth of opposition. The early phases of the transformation of the former Withington General Hospital provide a good example of where this has taken place (Box 3). The planning process too is clearly aimed so far as practicable at adding value to places and maximising the public benefit from attractive environments.

The assumption that building large numbers of houses in an area will necessarily cause local prices to decline over a period of time – Kate Barker's approach – is unreliable. Prices and affordability depend on the types of dwelling marketed and, over time, on whether a place becomes more or less attractive as somewhere to live.

**Numbers of dwellings**

The Reading report showed that building very large numbers of additional homes over a period of at least ten years would bring down house prices somewhat, and unsurprisingly that focusing building in the more expensive areas would achieve more pronounced improvements in affordability in those areas. However, the impact of extra new building on prices is not straightforward. Recent research[19] has argued that:

> differences in new housing supply make only modest differences to prices compared with the influence of other factors, including wider economic factors and local deprivation (confirming the findings of the Reading report and numerous earlier studies including Kate Barker's *Review of Housing Supply*);

> house prices at the neighbourhood level are influenced by stronger forces than new building: as a result, most of the effects of increased housing supply on house prices come at the housing market area level (i.e. in reasonably self-contained housing markets without many available alternative areas which are close substitutes);

> building additional houses reduces house prices more in areas which already have cheaper houses than it does in wealthier areas: this makes lower demand areas vulnerable to oversupply of new housing.

At the neighbourhood level, additional new building is capable of raising house prices rather than depressing them:

> expensive homes will obviously raise local prices, (while cheap ones will depress them);

> new building can create optimism about the future of the local housing market (not only in areas undergoing regeneration), so that other prospective purchasers and builders also become more interested in moving in;

> new houses are often of a higher quality than pre-existing ones, particularly in relatively run-down areas;

> new homes for sale are likely to be perceived positively in areas dominated by rented housing.

There is nothing surprising in the research finding that building additional houses produces only a weak response in house prices. The stock of housing can only be increased slowly[20]. This reinforces the importance of assessing the relative impacts of different forces on house prices over lengthy periods rather than short ones.

Even in the longer term there may be difficulty in identifying the mechanism by which increased housebuilding causes house prices in an area to decline (assuming that the extra building was on a sufficient scale to have a detectable impact). Building large numbers of houses may depress prices as a matter of supply and demand, but prices may also be responding to changes in the quality of a place at the same time. According to Kate Barker, it is high

demand areas on which development should be focused in an effort to bring down house prices. It is certainly the case that the option of building many more houses is more plausable in these areas of higher demand (as they would be harder to sell in areas of lower demand). However, applying this approach is likely to have unintended consequences.

Consider the option of opening up to development villages in Surrey's commuter belt close to London. They may well have a demand which for all practical purposes is insatiable: there would be no problem selling whatever homes were built. What would happen if large numbers of houses were built in such villages? Turning them over to market forces would soon result in them no longer exhibiting their earlier characteristics as villages. Those living in them through the change might well feel especially aggrieved. The main characteristic which would remain would be their proximity to London – sufficient, perhaps, to sustain high prices, but not so high as when the villages also exhibited distinctive village characteristics too.

From an economic perspective, the fact that prices were no longer so high as they once were – the village had become more 'affordable' – might rank as a success: the policy of increasing provision had helped to reduce prices. Residents would view the facts differently: prices would be perceived to have dropped relative to their previous levels not because a greater supply had to some degree satiated the demand, but because the quality of the place had been diminished. Before embarking on a policy of giving freer rein to market forces in places where rapid development has hitherto been resisted, there needs to be in place a much clearer understanding of when reduced prices are measuring a benefit and when they are measuring a loss. This issue also merits consideration at the strategic level: such reductions in house prices as may be discerned may properly need to be attributed to the damage done to places rather than to benefits of greater numerical supply.

## Conclusions

This chapter has shown that there are numerous influences on the relative prices of homes. The size, type and quality of a home within its boundary are obviously important, as are its location and surroundings. Changes to the environment around a property can affect its price, and the relative popularity of a location can change over time. Specific types of infrastructure, services, amenities and developments can all have a bearing on house prices, often affected by how close these are to a particular property. Numerous research projects have attempted to pinpoint the specific impacts on house prices of a range of particular influences, such as the catchment areas of good schools and urban green space.

Building new homes has further effects on housing affordability in an area. It may, for example, remedy or reinforce shortages of particular types of dwelling, while design quality can be critical in creating value in a locality. The location of housing and associated infrastructure development has a bearing on which places are likely to perform well in the years ahead. The quality of the surrounding environment is important in explaining house prices, and this touches on many of the points already noted. The planning system aims to ensure that all new development is designed to a high standard, in attractive surroundings, and respects its location: this is achieved much more advantageously if housing schemes create quality and add value to the area themselves, rather than contribute little but capture some of the pre-existing quality of a place for the benefit of the new occupants alone. The clear indication from variables such as these is that new housing development can raise local house prices or lower them, according to what is built, where and how it is achieved.

Chapter 3 provided evidence that building additional new homes did not make much difference to house prices, unless very large numbers were built continually for many years: this reinforced the finding in chapter 2 that stimuli on the demand side – ability to pay – were the crucial ones in shaping house prices. Nonetheless, even within the range of influences that additional construction does have on house prices, there is considerable scope for new building not just to reduce prices but to raise them, especially in the context of area regeneration.

Furthermore, when new housebuilding does reduce prices, there can be difficulty in understanding the

cause: did the supply simply contribute to meeting the demand, providing a benefit, or was there an element of damage to the locality caused by the new development so that the reduced price is measuring a loss of quality? The evidence available suggests that new building on a large scale and in the long term has modest impacts on house prices through the supply and demand mechanism, but that the quality of the surrounding environment has a significant impact on prices. It is important to distinguish between these two quite different causes of reduced house prices.

# Case Studies

## Objectives

There is a complex interplay between housing affordability, housing supply and the availability of land for building new houses. The Reading report studied the relationship between housing affordability and housing supply, but like many other models of the housing market it neglected land supply. The case studies below begin to remedy this by presenting evidence on land supply alongside the economic information. This should inform debate on the suggestion that further land releases are a means of encouraging extra housebuilding (and thereby reducing house prices and improving affordability).

In each case, data have been obtained for periods of at least ten years (so far as this is available). This ensures that short term fluctuations in any variable do not unduly distort trend figures. It also ensures that any impacts of land supply on housebuilding rates (and of housebuilding's reaction to deteriorating affordability) can be tracked over a sufficiently lengthy response period.

For each case study, data have been obtained from local planning authorities on land supply (planning permissions and, usually, land allocated in plans for housing) and completions. House price information has been obtained from the DCLG Live Tables and information on incomes from the Office for National Statistics *Annual Survey of Hours and Earnings*. The affordability ratio is calculated from the latter two sources. A fuller explanation of data sources is provided in Appendix 2.

Each case study area is explained in turn and some basic conclusions drawn from them. A fuller review of the issues arising is then provided in chapter 6.

## Selection of case studies

Case studies were chosen to address a small selection of housing market conditions (locations indicated on Map 2).

> 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: as the effects of development around Cambridge are felt well outside the area of Cambridge City Council, the housing market of the whole county has been included (though Peterborough in the north of the county has been excluded as far as practicable).

> Gravesham and Dartford. These two adjacent districts in north-west Kent comprise part of the Thames Gateway growth area. They are a middle-income area by the standards of authorities close to London. Planning policies have long endeavoured to encourage housing and economic development on the east side of London, including this area. They are less prosperous than some other parts of Kent: data for the whole of Kent (excluding the Medway Council area) are also provided for comparison.

> Torridge. This is a remote rural area in Devon with a low-wage economy, but nevertheless experiencing significant house price increases.

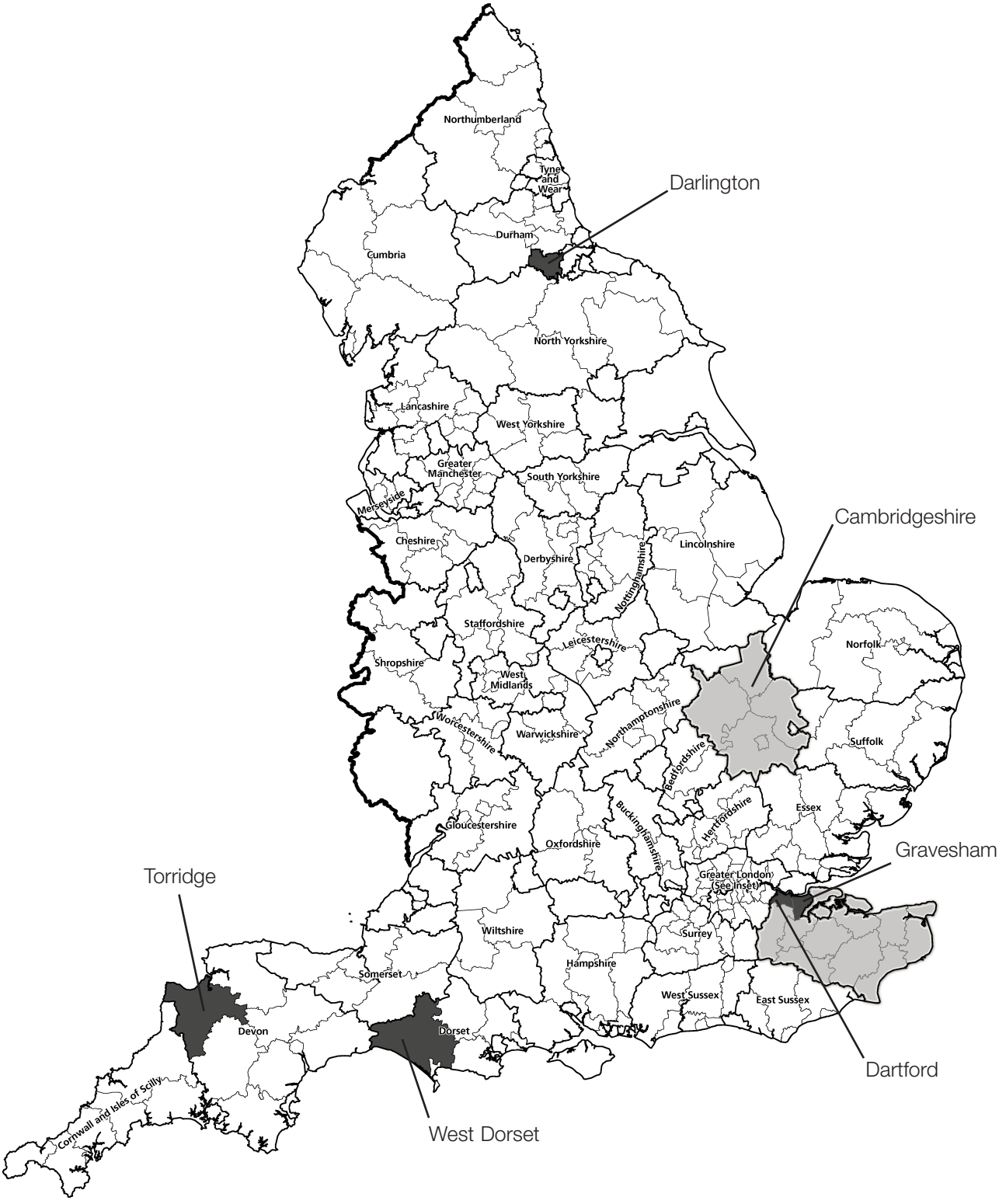
> Darlington. This unitary authority in North East England was selected to study land supply and completions in an area of low and relatively stable house prices. In January 2007, the Land Registry revealed that Darlington was the only authority in England to experience a drop in mean house prices in the year to December 2006.

## Poundbury and West Dorset case study

Poundbury on the edge of Dorchester in West Dorset district was selected to examine the impact which a successful large new development can have on house prices. This is a mixed tenure development on Duchy of Cornwall land, personally overseen by the Prince of Wales, where buyers have been attracted to the properties offered for sale. The scheme continues to be constructed to high standards of design in an urban village format with houses typically fronting onto pavements. Over 1,500 homes are planned, with 657 completed between 1993-94 and the end of March 2006.

Following the initial decision to proceed with Poundbury in 1990, Figures 3 to 5 show housing

***Map 2: United Kingdon: Local Authority Districts, Counties and Unitary Authorities, 2004***



commitments (i.e. planning permissions plus land allocations) in Poundbury, Dorchester and West Dorset district. The large permission in Poundbury in 1999-2000 and the large allocation in Poundbury in 2002-03 show up in the land supply in Dorchester, though this is somewhat dissipated at district level.

When the housing land commitments in West Dorset are split to distinguish contributions from Poundbury, the rest of Dorchester and the rest of the district, in Figure 6, the decline over the whole period in commitments outside Dorchester becomes apparent. Increased commitments in Poundbury and the rest of Dorchester explain the resurgence in land supply after 2001-02.

The location of the housing land commitments had a much less pronounced impact on housebuilding. Figure 7 shows the contributions to housing completions in West Dorset made by Poundbury, the

***Figure 3: Poundbury housing land commitments***

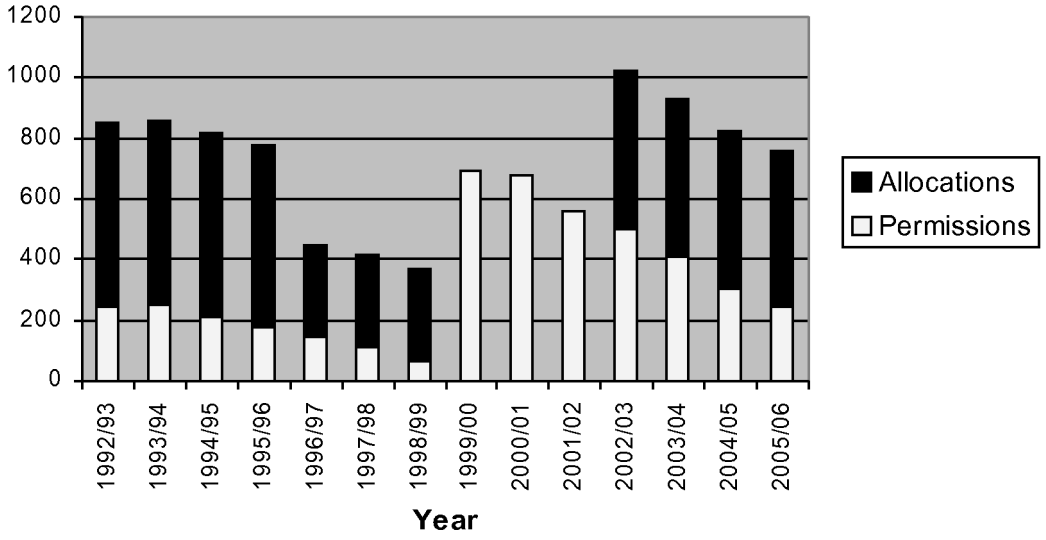
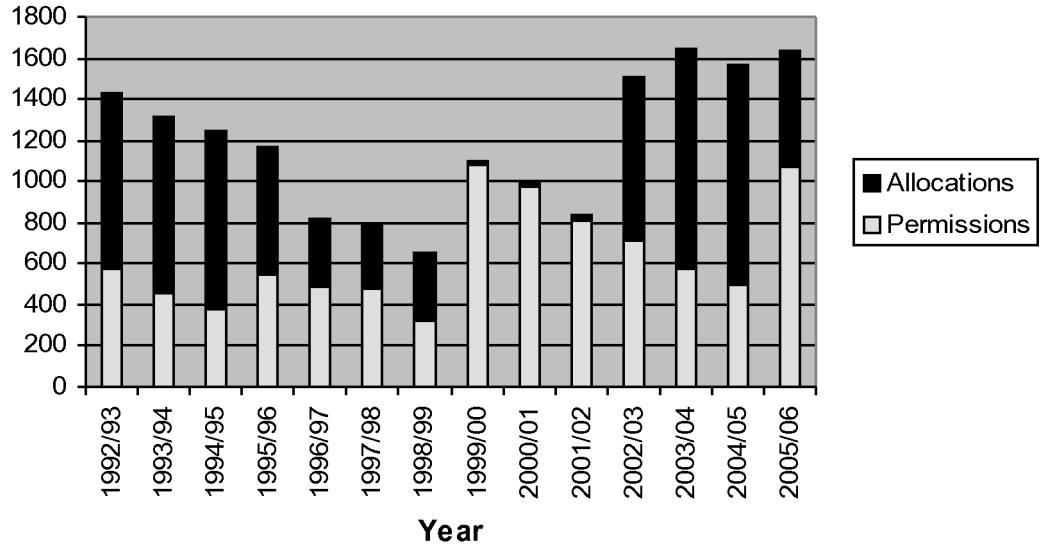



***Figure 4: Dorchester housing land commitments***



rest of Dorchester and the rest of the district since Poundbury came on stream. Completions in West Dorset as a whole have exceeded the Dorset Structure Plan allocation to the district of 529 dwellings per annum in half the last twelve years and fallen short in the other six.

Housebuilding rates have fluctuated considerably in West Dorset in recent years, whether or not Poundbury's contribution is included. After 2001-02 housing completions in both Poundbury and the rest of Dorchester broadly replaced declining contributions from the rest of the district. This is likely to be more pronounced in future with the redistribution of commitments towards Poundbury and the rest of Dorchester. However, any possible effect Poundbury may have had on overall housebuilding rates in West Dorset is not pronounced. Figure 8 shows that housing land commitments in West Dorset as a whole provide for over six year's supply compared with

***Figure 5: West Dorset housing land commitments***

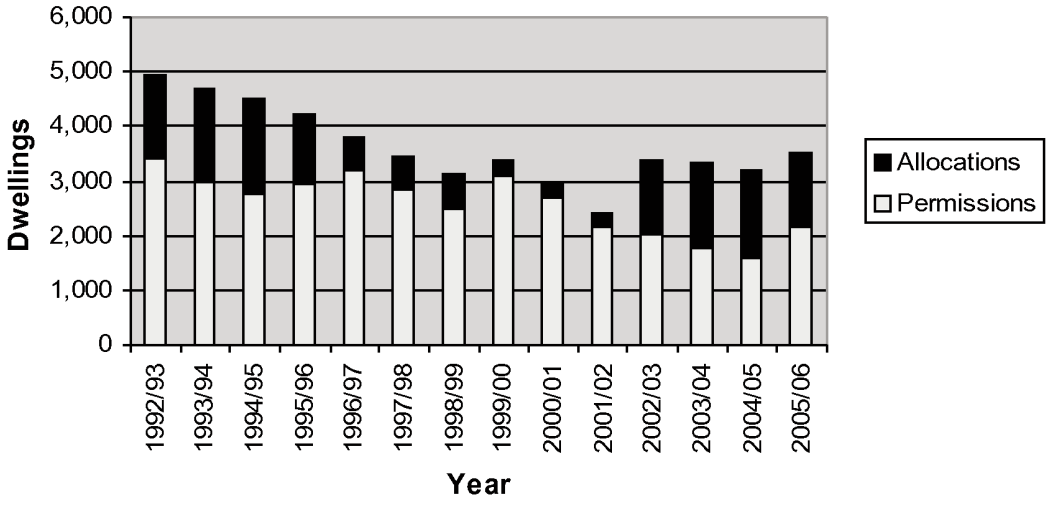
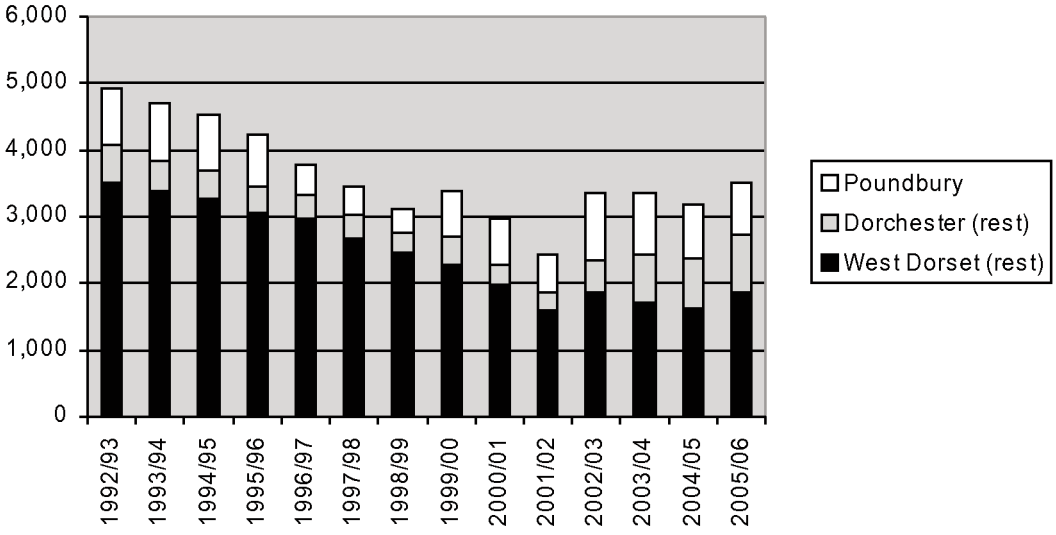



***Figure 6: Distribution of housing commitments in West Dorset***



current completion rates (and also true of policy requirements), with permissions comprising over 60%.

House prices in Poundbury are relatively high. Table 3 shows mean house prices in Poundbury (the only measure readily available) in the last two years by dwelling type. It shows that these house prices are higher than the average for Dorchester as a whole, and in particular higher than another recent urban village development built in another part of Dorchester called Thomas Hardy Gardens, completed in 2004. The latter is comparable in many ways with Poundbury, though properties are of more modest size (and, unlike Poundbury, it is without flats). Local estate agents suggest that there is a premium of about £30-40,000 for a mid-terrace property in Poundbury compared with an equivalent elsewhere in Dorchester.

Mean house prices in Poundbury, Dorchester and West Dorset district have risen considerably over the

***Figure 7: Distribution of housing completions in West Dorset***

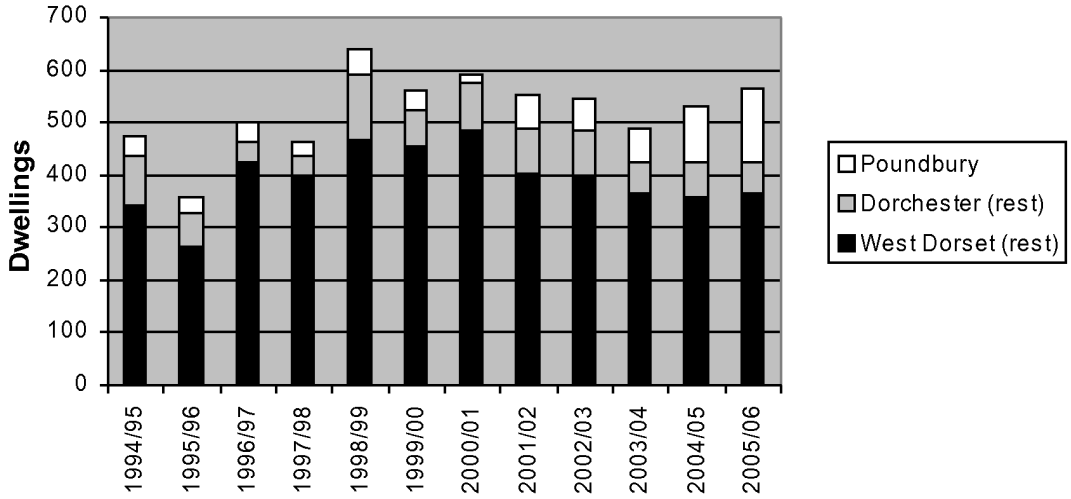



***Figure 8: West Dorset completions and housing land commitments***

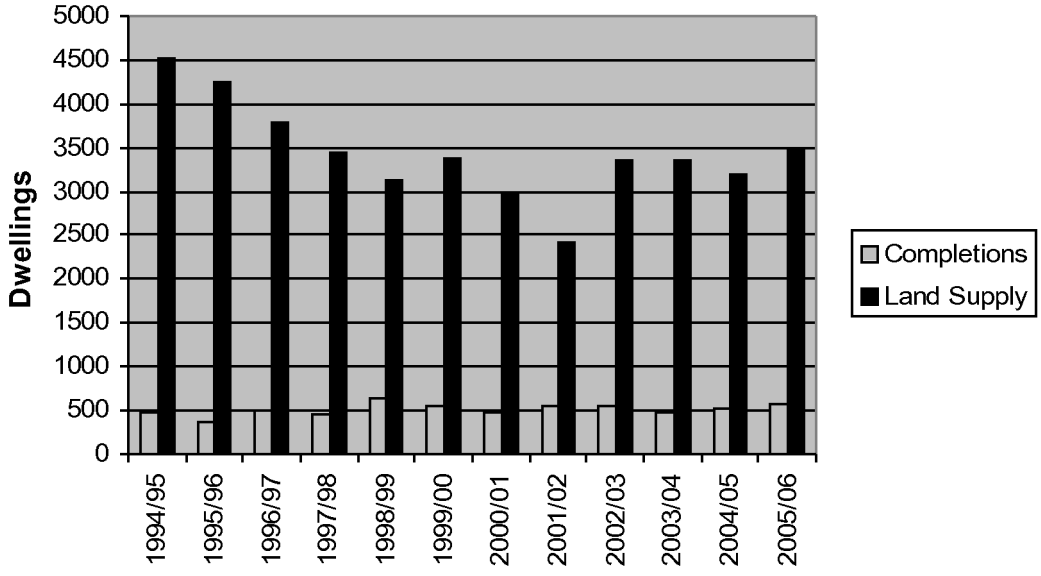


***Table 3: Mean dwelling prices in Dorchester in the last two years (sample size in brackets)***

| *Location* | *Detached* | *Semi-detached* | *Terraced* |
|---|---|---|---|
| Poundbury | (46) £346,016 | (42) £315,780 | (92) £277,232 |
| Thomas Hardy Gardens | (10) £270,840 | (8) £217,500 | (13) £192,478 |
| Dorchester (DT1 postcode) | (182) £327,914 | (205) £238,777 | (405) £206,544 |
| Dorchester excl. Poundbury | (136) £321,791 | (163) £218,936 | (313) £185,767 |

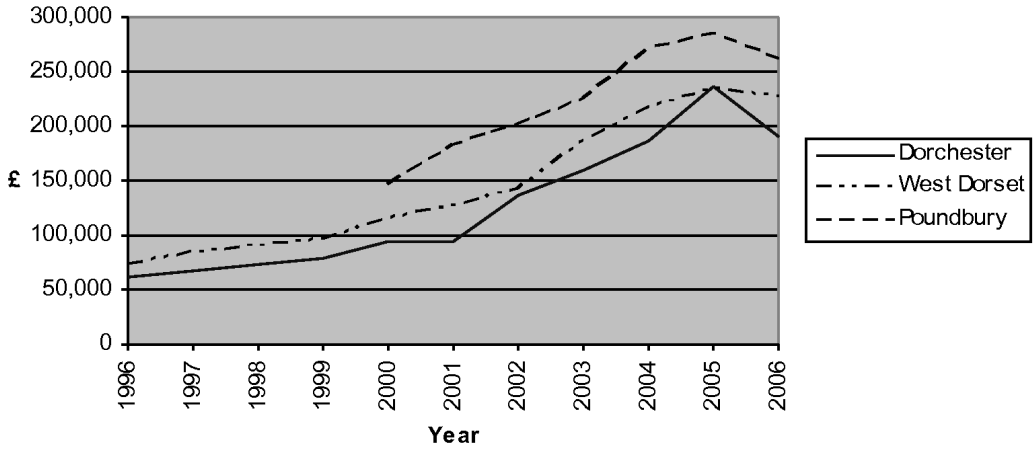
Source: Rightmove

period (Figure 9 below). The data show that the percentage gap between house prices in Dorchester and West Dorset as a whole has narrowed over the years, being less in the last five years than in any of the preceding six years. Not only are Poundbury prices higher than in the rest of Dorchester, but over the last decade they have been pulling up Dorchester's prices closer to the West Dorset average.

Earnings in the area have failed to increase at the same rate as house prices, resulting in deteriorating affordability. Figure 10 shows the affordability ratios in West Dorset district (where house prices have risen less quickly than in Poundbury).

Figure 10 shows that affordability has deteriorated rapidly, particularly at median prices and earnings. From a ratio of under six in 1998-99, this rose in only five years to a peak ratio of ten (on one measure) in 2004. The data show some similarity with West Dorset's pattern of completion rates (Figure 7 above), in that declining completions between 1998-99 and 2003-04 were matched by worsening affordability, followed after 2003-04 by a little revival in completions and some improvement in affordability. However, there must be considerable doubt whether differences in new home completion rates of a few dozen from one year to another could affect affordability ratios to the extent identified in Figure 10: more likely are wider

***Figure 9: Mean house prices in West Dorset***




***Notes***

Sources: Land Registry (Dorchester and West Dorset); Rightmove (Poundbury).
Data are for Q1 of the year from the Land Registry, calendar year from Rightmove.
Poundbury figures are included within Dorchester's and Dorchester within West Dorset's.

demand-side influences, since improvements in median affordability have been identified in all the other case study areas after 2005 (except Dartford). (It is also possible that, in this size of dataset, the outcomes were swayed by a larger proportion of expensive houses coming to the market in 2003-04 and/or a larger proportion of cheaper ones in 2004-06.)

Higher prices in Poundbury clearly cannot be explained by a deficiency of land supply as Poundbury is a major land release, nor by an insufficient building rate at Poundbury as this scheme now provides around one fifth of West Dorset's housing. Meanwhile housing land commitments in the District as a whole have been reasonably constant in recent years. Figure 11 tracks net dwelling completions, housing land supply and house prices in West Dorset (indexed for compatibility), showing that completions peaked in 1998-99 and have failed to increase significantly in response to rising house prices since then.

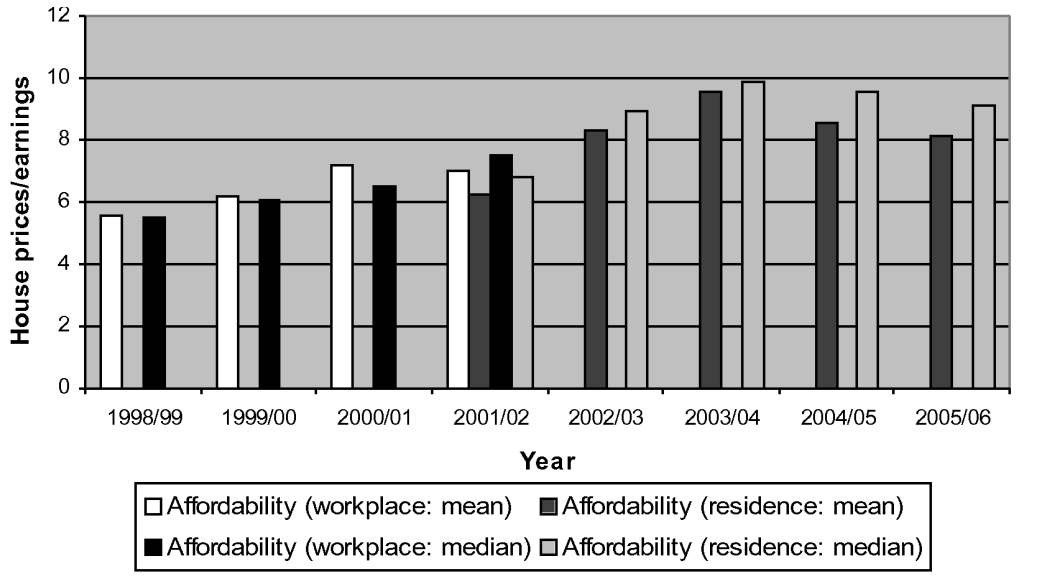
Poundbury is a locally important housing development comprising a mix of dwelling types and a range of tenures. In practice, the homes built at Poundbury have caused prices to rise locally over the last decade. This is clearly due to the quality of the scheme. West Dorset's annual rate of housing construction has varied over the years, and it is difficult to tell what impact if any Poundbury has had on construction levels in the district as a whole. The price rises cannot be explained by insufficient land supply. Rather, the evidence is that a high quality planned development is attractive to the market and that the house prices it can command reflect this, swamping any theoretical house price reduction there may be at the district level from the houses or land it supplied to the market.

## Cambridgeshire case study

One of the country's hottest hotspots of demand is around Cambridge. In 2006 Cambridgeshire had the highest mean income of all the case study areas (by place of residence). House prices are correspondingly high in Cambridgeshire and have been rising for a decade. Figure 12 nevertheless indicates that the longer term trend in housing completions has failed to follow house prices in Cambridgeshire. There has been an upward increase in housing supply since 2002, taking building rates past their peak in 1997-98, but there is no evidence to suggest that completions respond to demand either consistently or on a scale sufficient to hold down house prices. Completions declined for four years after 1997-98 despite rising prices in that period.

Earnings in Cambridgeshire have been rising quickly, but not as fast as house prices. Figure 13 shows trends in housing affordability in Cambridgeshire,

***Figure 10: West Dorset affordability ratios***



indicating a continual deterioration in affordability since (at least) 1998-99. Median house prices in Cambridgeshire rose from 4.22 times the median earnings of people in full-time employment in 1998-99 to 6.92 just five years later (though, due to high earnings, these ratios were not as high as in the South West region case study areas). Recent housebuilding at rates of 3,000-5,000 dwellings annually has therefore not discernibly improved affordability.

Any failure of completions to respond to rising house prices cannot be attributed to the operation of the planning system. The data presented in Figure 14 show that planning permissions alone (excluding allocated land) were sufficient to allow between four and seven years' housebuilding at rates prevailing in recent years (these data include Peterborough as pre-2001 figures do not distinguish Cambridgeshire alone). Figures for Cambridgeshire alone show that in recent years permissions have represented around one third

***Figure 11: Trends in West Dorset completions, land supply and house prices***

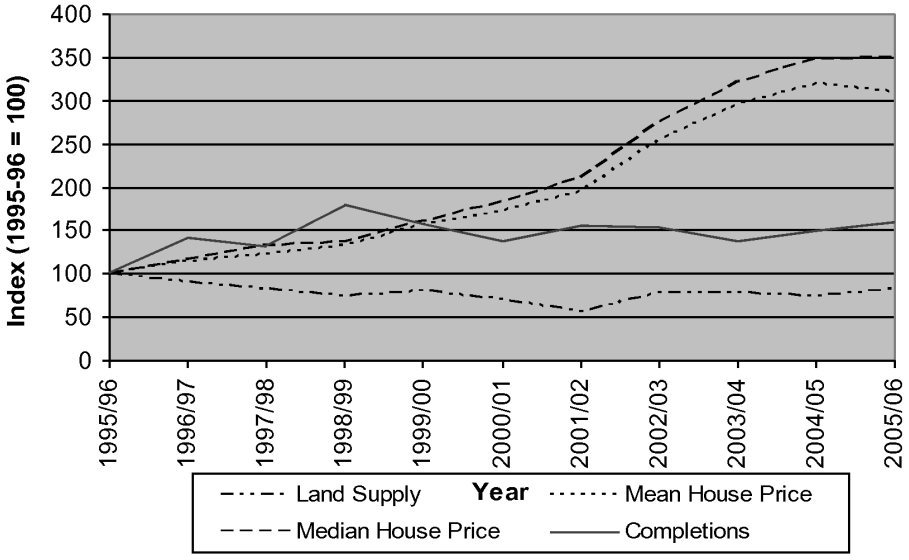
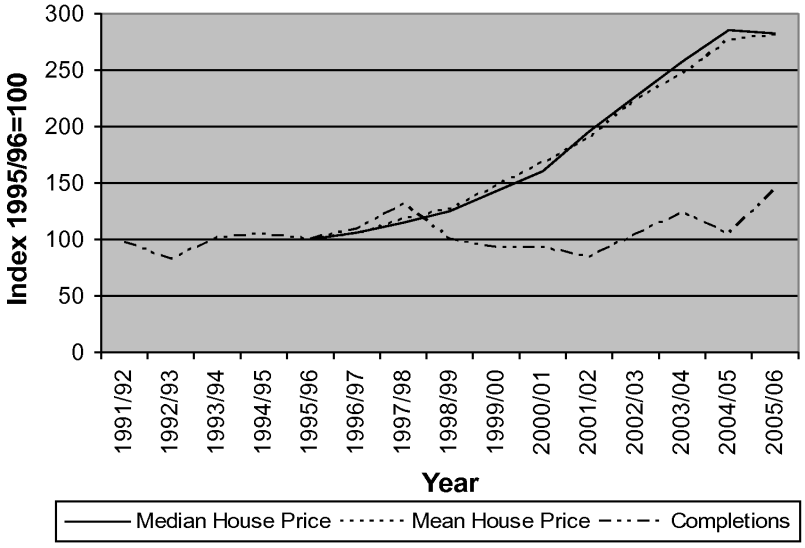



***Figure 12: Trends in Cambridgeshire completions and house prices***

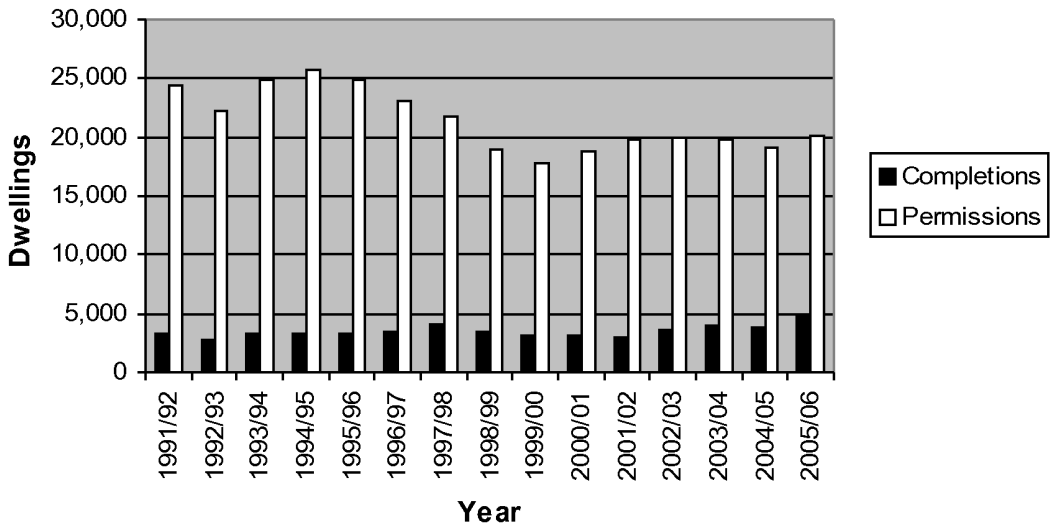


of the county's supply commitments, with the other two thirds being land allocated in local plans (including major new settlements and growth points). In short there are very large quantities of land being made available for housing, but completions have not progressed as fast as might have been expected either from the land available or from house price trends.

The housebuilding industry is not building the number of houses necessary to achieve any detectable improvement in affordability, despite a rising building rate over the last six years. (There is a theoretical argument that house prices could have been still higher but for the strong rate of construction, but even if this was correct the rise in house prices still suggests that prices are shaped by much stronger forces than new construction rates.) If affordability cannot be improved noticeably in an area of high demand, with a rising building rate and substantial supplies of land both with permission and allocated in

***Figure 13: Cambridgeshire affordability ratios***


***Figure 14: Cambridgeshire housing completions and planning permissions***



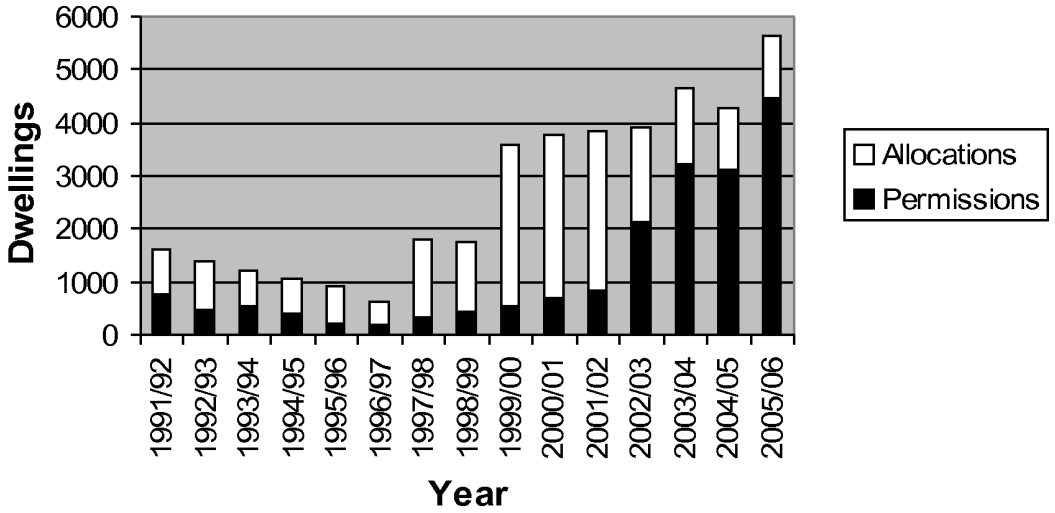
plans, then where will it be possible? Rather than new building depressing house prices and improving affordability, rising house prices and deteriorating affordability appear to march together, to a different tune. In areas of high demand like Cambridgeshire, house prices appear to be raised by the wealth of prospective purchasers far more than by a shortfall in the supply of new dwellings. In such areas, rising house completion rates cannot expect to bring down affordability ratios, however much land is available. These findings contrast with Kate Barker's expectations, despite offering an ideal testing ground for the benefits claimed from building additional houses in a high demand area.

## Gravesham and Dartford case study

Encouraging development to the east of London has for decades been a regional planning policy objective. This is currently enshrined in the very substantial proposals for the Thames Gateway growth area, which comprises extensive urban renewal and infrastructure provision across a large area. Dartford and Gravesham are districts in the north west of Kent included within this growth area. Their house prices and residents' earnings are both mid-range but lower than those for the county of Kent (with house prices and workplace earnings somewhat higher in Dartford than Gravesham). Both have extensive tracts of brownfield land suitable for redevelopment, but they have struggled over many years to realise the potential they possess. This case study aimed to assess the impact of land supply in relation to the housing market in an area ripe for redevelopment and with supportive planning policies.

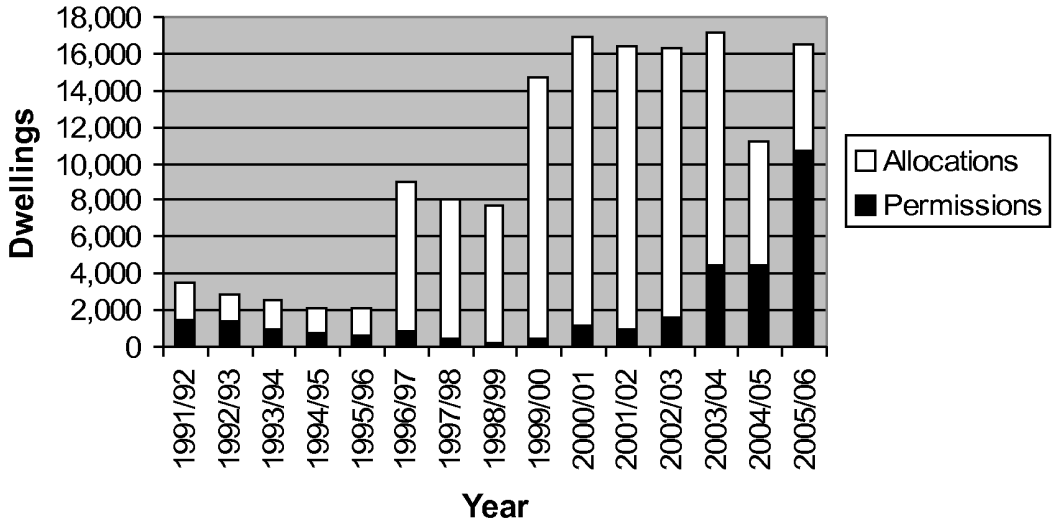
Figures 15-17 indicate housing land commitments in Gravesham, Dartford and Kent since 1991-92. All the tables indicate a rise in commitments over the period, with some acceleration from the turn of the millennium and an increased translation of allocations into permissions. The substantially increased allocations in Dartford in 1996-97, also discernible in figures for Kent as a whole, are explained by the adoption of a new Kent Structure Plan in 1996, when significant sites were identified for development as part of the Thames Gateway initiative. These were followed by large allocations in Gravesham. Some of these sites were in other uses at the time, including mineral working, and included complex brownfield sites which were not particularly attractive to developers. After increased priority was given to development of brownfield sites in PPG 3 Housing in 2000, and infrastructure increasingly provided to enable development to proceed, more attention has been paid to bringing these sites forward. This has been reflected in the conversion of more allocations to permissions in both Dartford and Gravesham.

***Figure 15: Gravesham housing land commitments***



Figures 18-20 compare dwelling completions with commitments in Gravesham, Dartford and Kent. Gravesham achieved its 1996 Structure Plan allocation of just 200 dwellings annually for the first time in 2003-04. Dartford only once achieved its Structure Plan target of 470 dwellings up to 2000-01, though in three of the five years since 2001-02 it has comfortably exceeded its target of 500 dwellings. Kent has achieved its Structure Plan target of 4,950 dwellings in four of the last five years, but only once achieved this in the preceding ten years. In each case the graphs show that completion rates have not responded discernibly or consistently to the increased supply of land available through the planning system. With

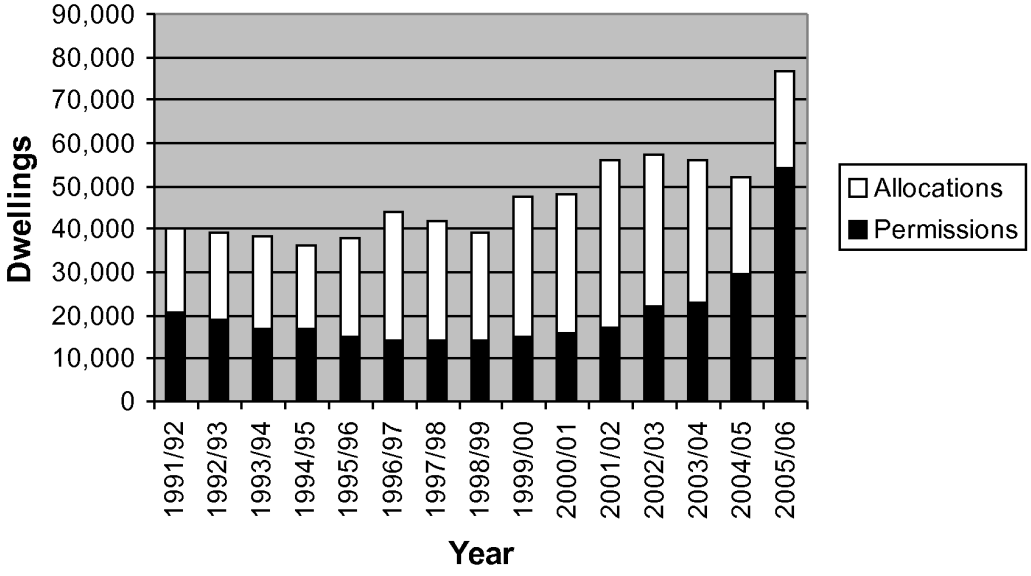
***Figure 16 Dartford housing land commitments***




***Note***

*The figure for 1996-97 commitments includes Kent Thamesside allocations in the Structure Plan not yet included in local plans.*

***Figure 17: Kent housing land commitments***



commitments in 2006 running at twenty times completions in Gravesham, ninety times completions in Dartford, and over twelve times completions in Kent, completions cannot be said to be held back by a deficiency of land supply through the planning system.

Figures 21-23 set house price data against completions and commitments, indexed to show the trends from 1996 Q1. Commitments everywhere were very large and rising, as previously noted. In all three areas, house prices trebled over the decade. Housing completions also rose but did not match the growth rate in prices. This was clearest in the wider area of Kent. The trends were similar in Gravesham, though here completions were so weak that 464 dwellings in 2004-05 (more than twice the supply of any of the previous 15 years) gave a misleading impression of a temporary correlation with house price growth. In Dartford, the completion rate has been volatile but on an upward trend. Other than for particular years such as 1999-2001 and 2005-06,

***Figure 18: Gravesham completions and housing land commitments***

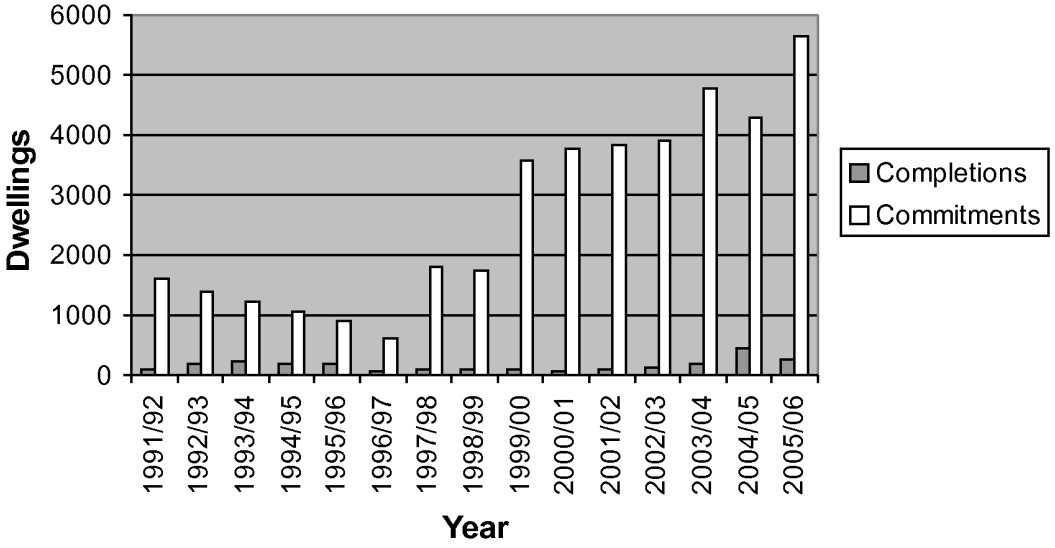
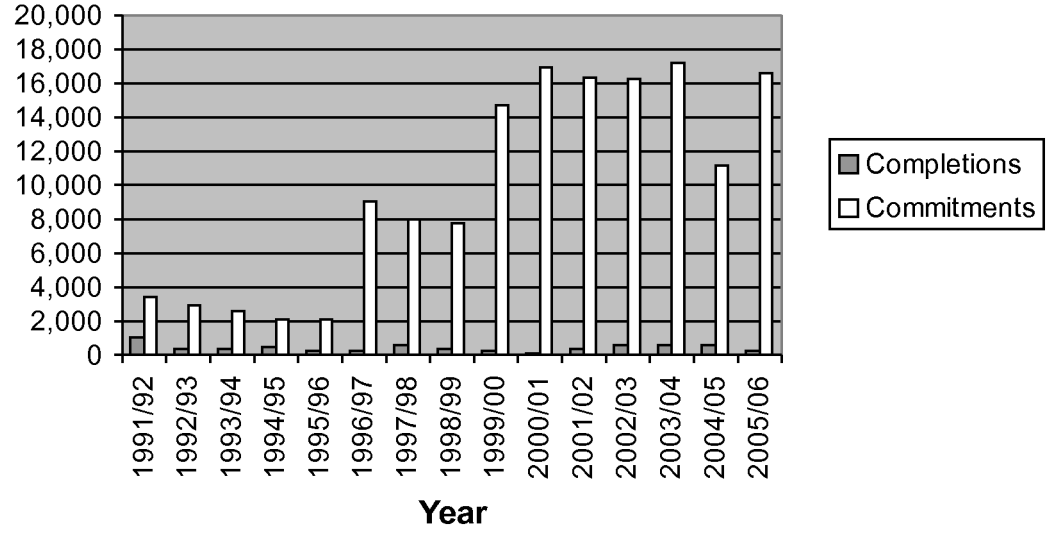



***Figure 19: Dartford completions and housing land commitments***



completion rates here have been closer than elsewhere to tracking growth in house prices. The data suggest that rising house prices had the effect of encouraging some additional housebuilding, not that rising housebuilding rates had any obvious impact on house prices. Building rates were effectively unconstrained by land supply, certainly in Gravesham and Dartford.

Meanwhile, the commitments in both Gravesham and Dartford rose dramatically. Housing completions show little or no relationship with land supply in either Gravesham or Dartford, no doubt due to the enormous supplies available in relation to demand. The districts therefore offer no evidence that increased land supplies prompt increased housebuilding. There is a closer coincidence of the commitments and completions trends in Kent as a whole. However, the assumption cannot reliably be made that increased commitments here were responsible for allowing increased construction:

***Figure 20: Kent completions and housing land commitments***

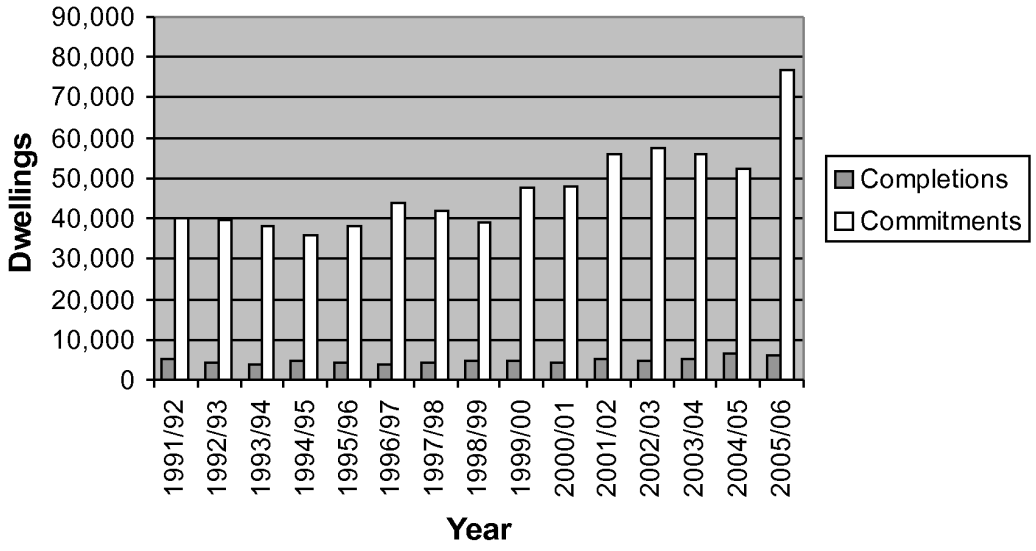
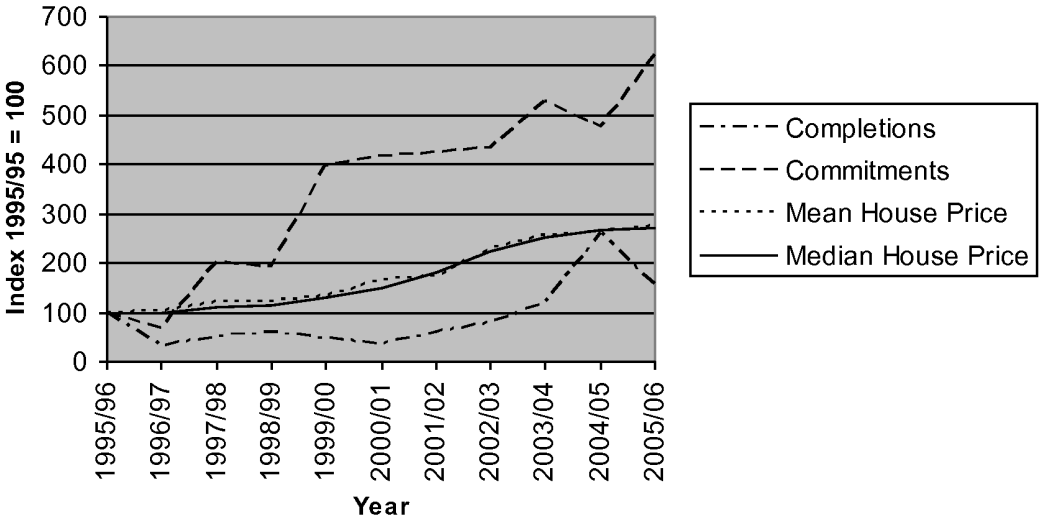



***Figure 21: Trends in Gravesham completions, land supply and house prices***



> substantially increasing the commitments need not cause completions to increase substantially, as Gravesham and Dartford illustrate;

> commitments do facilitate completions, but other influences may explain the rise in Kent's completions.

House prices have continued to rise both significantly and faster than the rise in earnings, resulting in deteriorating affordability. This was especially the case in Dartford, where someone on mean or median earnings would have paid more than 3.5 times annual income for a mean- or median-priced home in 1999, but had to find more than 6.5 times annual income for it seven years later. Figures 24-26 show that the trend has been broadly similar across the three authority areas, particularly between 2002 and 2006. Housing was generally slightly more affordable in Gravesham and Dartford across the period than it was in Kent as a whole.

***Figure 22: Trends in Dartford completions, land supply and house prices***

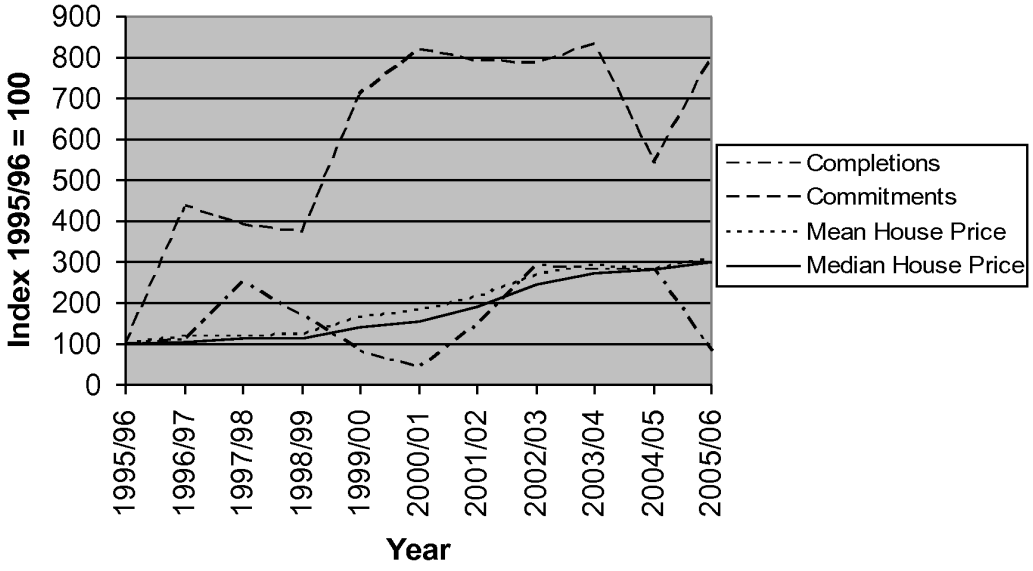
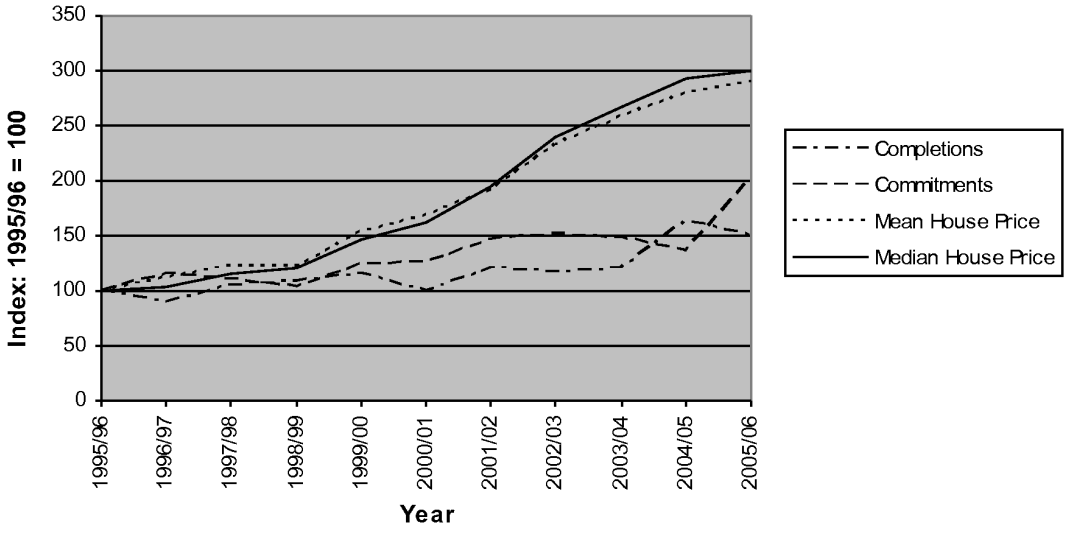



***Figure 23: Trends in Kent completions, land supply and house prices***

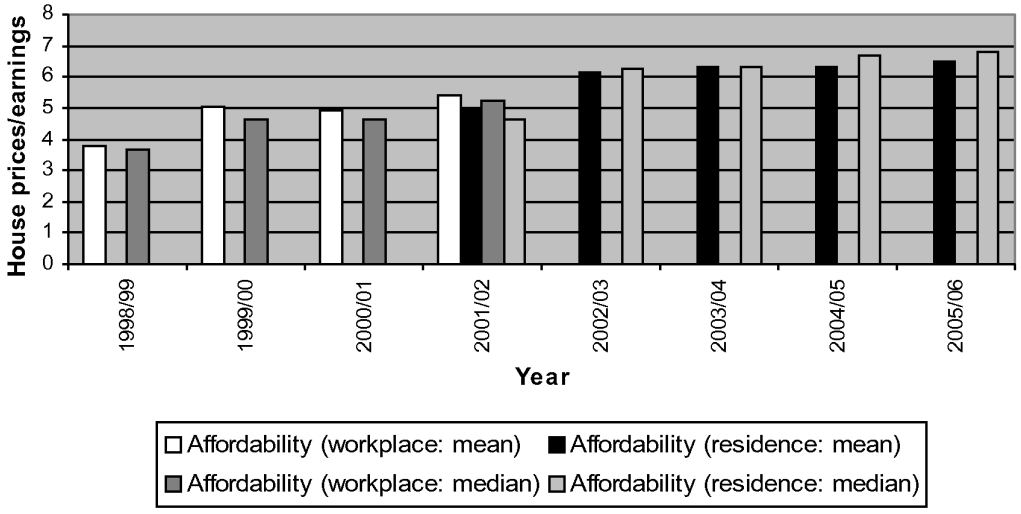


The deterioration in affordability in the three areas is despite a substantial increase in housing land supply and an increase in the rate of dwelling completions. The data confirm the findings from other areas that it is difficult to show that land supply has any detectable impact on house prices or affordability. Increasing land supply in these locations would be a particularly inefficient way of attempting to reduce growth in house prices or to improve housing affordability. An alternative explanation is needed for the observed trends in house prices and affordability.

Housing completions rates in Gravesham and Dartford were weak through the 1990s despite strong encouragement to build from the Government and planning policy. Land supply increased dramatically following the 1996 Structure Plan. House prices nonetheless increased sharply in the area after this (including in relation to earnings), for reasons separate

***Figure 24: Gravesham affordability ratios***


***Figure 25: Dartford affordability ratios***



from planning. The private market appears to have been stimulated recently by the healthier market and by public intervention in the form both of infrastructure and of the strong policy to encourage the recycling of previously-developed land (extensively available in these authority areas). There has long been ample land allocated for building in the area, but only recently has there been significant commercial interest in converting these to planning permissions.

## Torridge case study

Torridge is a relatively remote rural district in north Devon. Historically it has had a low wage economy with considerable reliance on the tourism industry. The housing market has been weak for many years. The Devon Structure Plan for 1995-2011 allocated 444 dwelling per annum to Torridge, but the average rate of building in the first seven years of that plan was just 366 (though on a rising trend). When revised for the

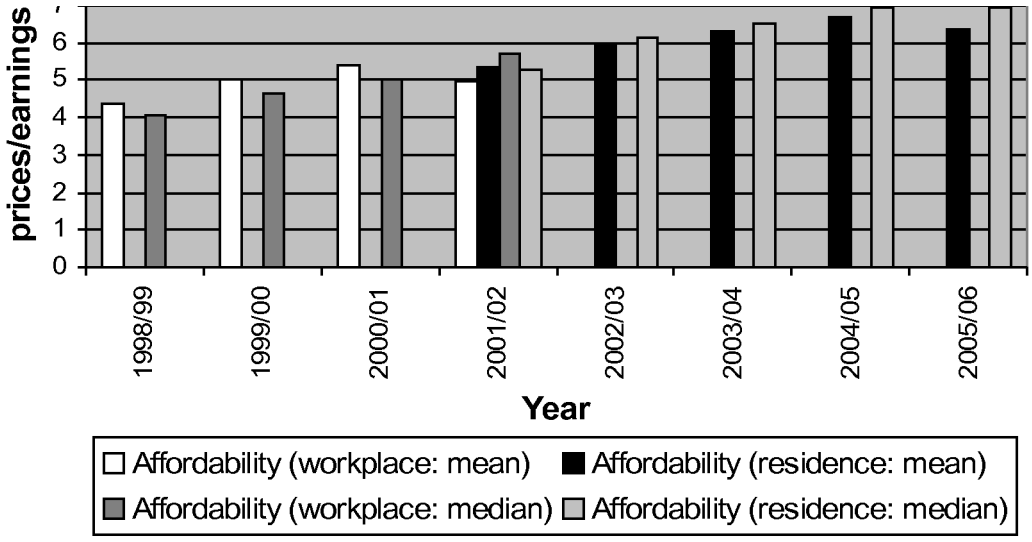



***Figure 26: Kent affordability ratios***

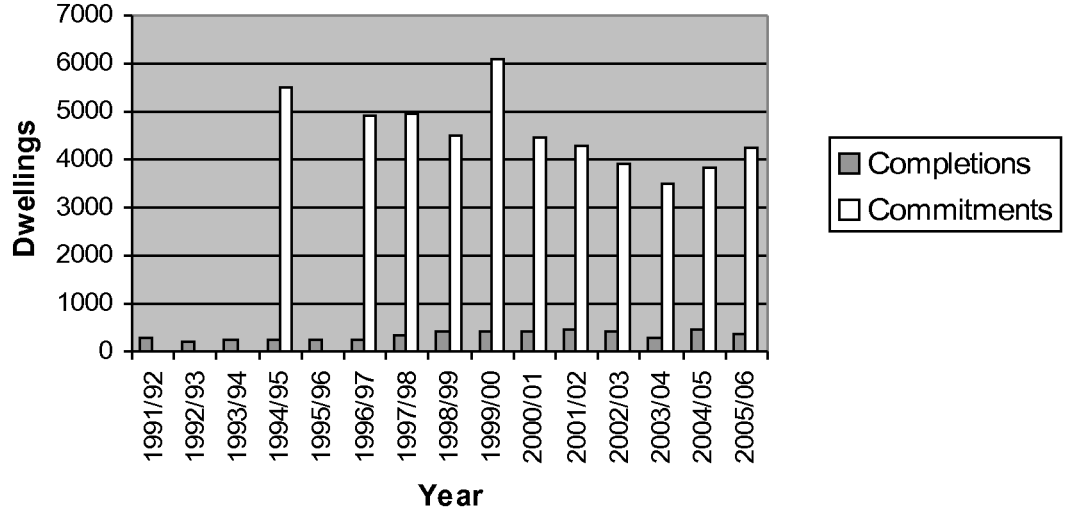



***Figure 27: Torridge completions and housing land commitments***

period 2001-2016, the Devon Structure Plan reduced the allocation to Torridge to 340dpa. This target has been exceeded in all years but one (though the previous Structure Plan target has not been exceeded).

Land allocations in Torridge have been substantial, usually being well over ten times the annual rate of both completions and the Structure Plan allocation. The large supply of land in relation to completions is indicated in Figure 27.

The available data on the breakdown of housing land commitments between planning permissions and other allocated land is given in Figure 27. This shows an unusually high rate of planning permissions – far higher than could normally be sustained by the building rate in the District. The Council had such a surplus of land allocated for housing during the 1990s that in 1999 particularly it withdrew (or indicated an unwillingness to renew planning permissions on) nearly 500 plots previously considered suitable, (providing alternative allocations instead).

***Figure 28: Torridge housing land commitments***

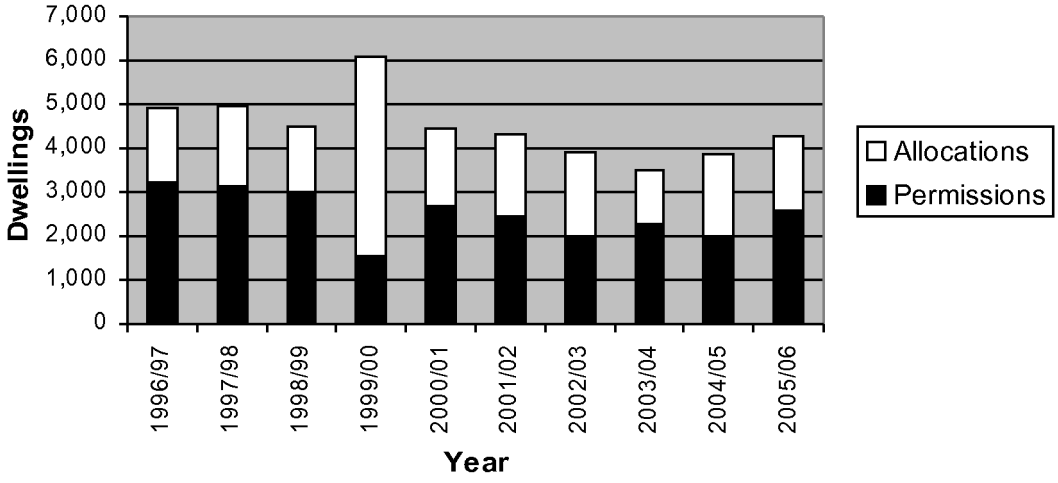
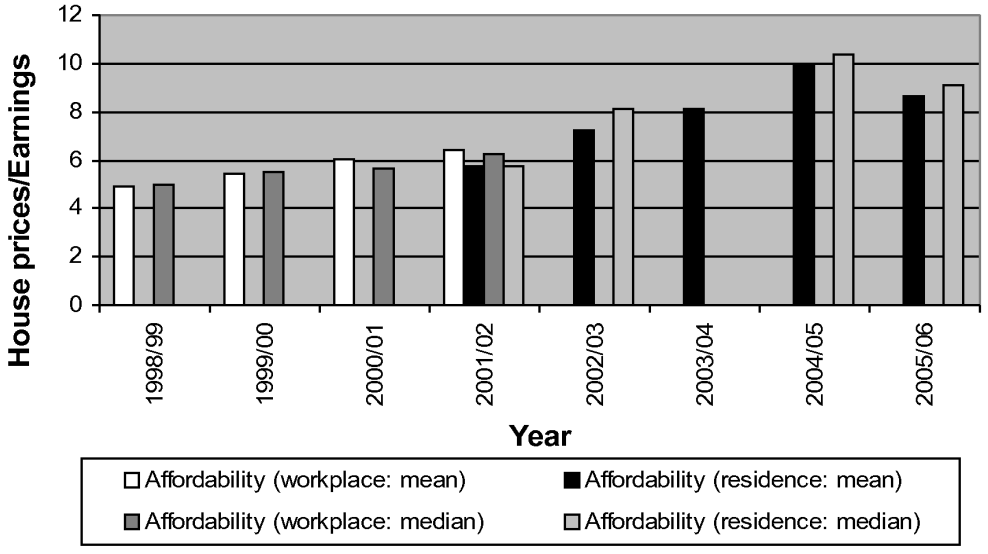



***Figure 29: Torridge affordability ratios***



Despite the weak economy of the area, house prices have risen strongly over the last decade. Mean house prices increased faster in Torridge than any other case study area. Median house prices increased slightly less rapidly (and West Dorset had a faster rate of increase), suggesting that increases were more pronounced at the upper end of the market. Earnings in Torridge were persistently the lowest of the case study areas (on all measures). Earnings have risen proportionately broadly in line with other case study areas, but housing has become far less affordable. Figure 29 shows that mean- and median-priced houses cost about five times equivalent incomes in 1999 but peaked at ten times incomes only six years later.

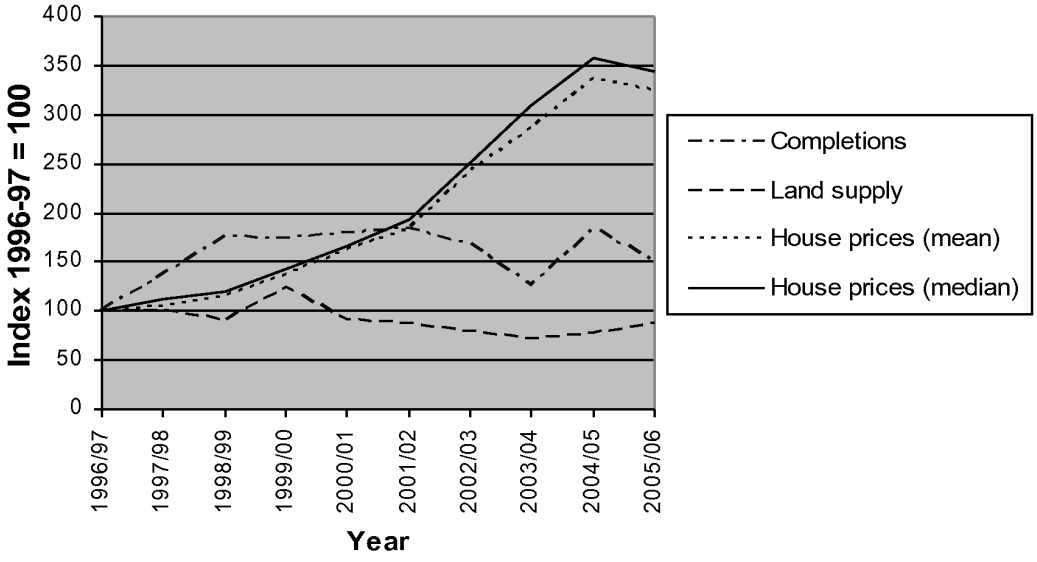
Figure 30 tracks completion rates, housing land commitments and both mean and median house prices, indexed to 100 from the first quarter of 1997. This shows that completions have failed to increase since 1998-99 despite dramatic house price rises. This is despite the availability of large amounts of land not only allocated but with planning permission. The evidence from Torridge is that even granting a very large number of planning permissions compared with the rate of housing completions has had no real impact on completion rates, despite clear evidence from the market of rising house prices and deteriorating affordability. Land supply has clearly not constrained development in Torridge, and there is no evidence that releasing more land would have had any impact at all on house prices. House prices are most likely to have been driven by the second home and retirement markets, with affordability so poor because of the low incomes available locally.

## Darlington case study

Darlington has historically had a low-wage economy, but is accessible to employment opportunities in County Durham, North Yorkshire and the Teesside conurbation. Darlington has persistently had by far the lowest house prices amongst the case study areas chosen. Its mean workplace earnings and mean and median house prices all increased proportionately by lesser amounts than in any other case study area (though median workplace earnings increased by slightly less in Gravesham). The aim was to examine the relationship of this housing market to land supply. However, the housing market demonstrated some complexities superimposed on the broad picture noted.

Three months after the Land Registry identified Darlington as the only authority in England to have experienced a drop in mean house prices in the year to December 2006, the Halifax identified Darlington as having a 15% annual house price growth to the first quarter of 2007. Darlington was the post-town with the fourth highest rate of house price growth in northern

***Figure 30: Trends in Torridge completions, land supply and house prices***



England. This accords with data on the incomes of residents, which have risen slightly faster than incomes available in the district and overtook these in 2004 at the median level and 2005 at the mean level, as Figure 31 shows. The implication is that Darlington is increasingly occupied by out-commuters whose higher incomes are pushing up house prices. (This finding is reinforced by workplace earnings at the lower quartile level: these were not overtaken by residents' earnings between 1999 and 2006, further emphasising that rising incomes at the higher levels have been responsible for raising house prices.) The Land Registry finding appears to be a one-off quirk in the data.

Housebuilding rates in Darlington have fluctuated over the last 15 years, reaching a peak of 541 in 2004-05 after their lowest over the period of 188 just two years earlier (Figure 32). The average annual rate of completions has been 342 compared with Structure Plan requirements of 297 per annum between 1991-2006. Housing land commitments have fluctuated, dropping to a low in 2001-02 after a major Local Plan site was deleted following a successful High Court challenge, but increased quickly since 2001 (almost entirely accounted for by permissions on windfall sites).

Figure 33 shows that in the last five years the majority of Darlington's commitments have been in the form of planning permissions. The result of these large commitments, especially permissions, has been little constraint on the overall scale of housebuilding in recent years. In association with this, completions have risen above requirements in local and regional plans, exceeding the previous peak nearly a decade before. At the same time as the high level of permissions has allowed a market-led pattern of completions, Darlington experienced a surplus of authority-owned housing stock for a short period in the late 1990s (176 homes were demolished in 1998-99 and 174 in 1999-2000). However, with the deteriorating affordability of private housing since 2001-02 (see below) there is now a serious shortage of social housing.

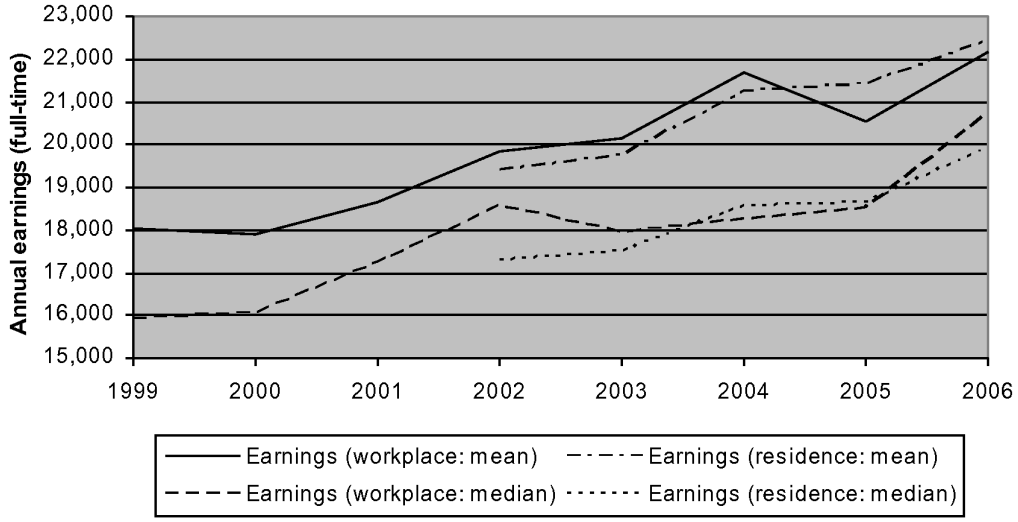
Tracking house prices, completions and commitments together over the last decade helps to identify the dominant forces in Darlington's housing market. Figure 34 shows that house prices have increased much more quickly than either completions or commitments. Prices at the lower quartile level have trebled in Darlington in a decade. Commitments have edged upwards recently as have completions (from a low in 2002-03).

The data therefore show that in the context of a nearly free market:

> modest increases in completions failed to prevent proportionately large house price increases;

***Figure 31: Trends in earnings in Darlington***

*(Comparable data on earnings by residence not available before 2002)*



> completions only increased distinctly when house prices rose sharply after 2001-02, suggesting that higher prices were a modest spur to more completions;

> there were some similarities in the trajectories of completions and commitments but, in view of the large quantity of land available, this appears to represent commitments being topped up rather than completions being constrained.

While house prices were rising in Darlington so also were incomes. Housing affordability figures allow for this, but only cover the period from the first quarter of 1999. Figure 35 shows that housing affordability in Darlington deteriorated, sharply after 2001-02, with mean and median house prices costing about three times equivalent earnings in 1999 but six times earnings only six years later. This confirms the findings above in respect of house prices (though clearly the rate of deterioration of affordability was not as sharp as the rise in house prices).

***Figure 32: Darlington completions and housing land commitments***

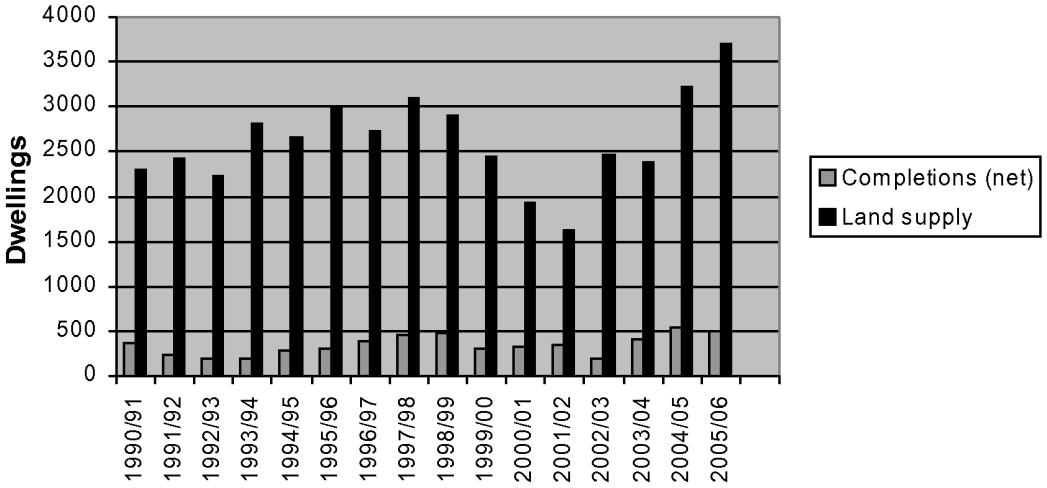
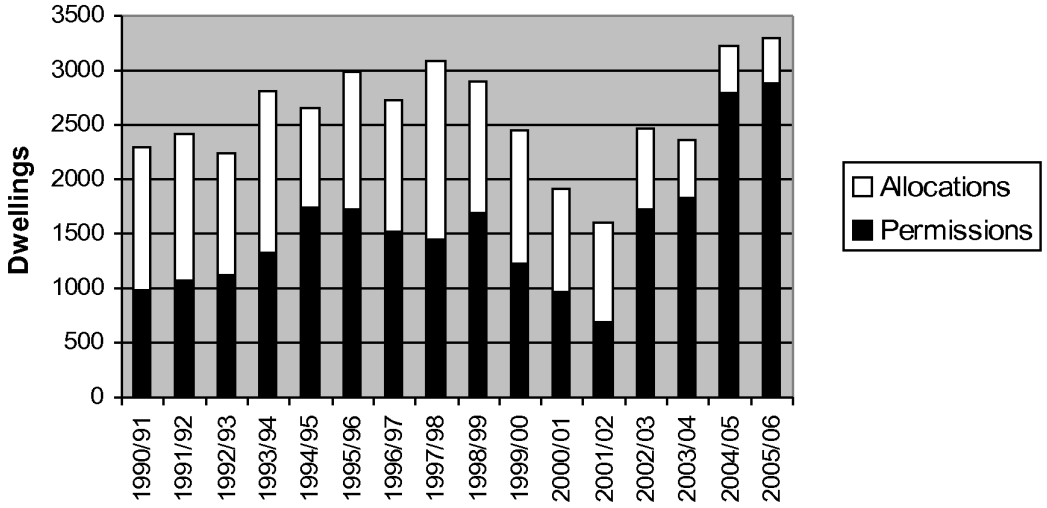



***Figure 33: Darlington housing land commitments***



In conclusion, Darlington offers the housebuilding industry a large supply of land, including many years' supply of planning permissions. While completions have barely been constrained by planning controls (currently being well above Plan levels), house prices have recently risen at a much faster rate and affordability deteriorated since 2002. Releasing yet further housing land (as proposed by Kate Barker) would therefore have no obvious benefit for affordability. Low incomes combined with the relatively weak economy of the North East appear responsible for the relatively low house prices historically. The data suggest that the last five years have seen an increase in higher earners living in Darlington and commuting out, which appears to be a factor in the house price increases. Nonetheless, the house price trajectory over the last decade is similar to that in the other areas studied, suggesting that factors other than planning controls (financial issues affecting demand) are the key determinants of house prices and building rates.

***Figure 34: Trends in Darlington completions, land supply and house prices***

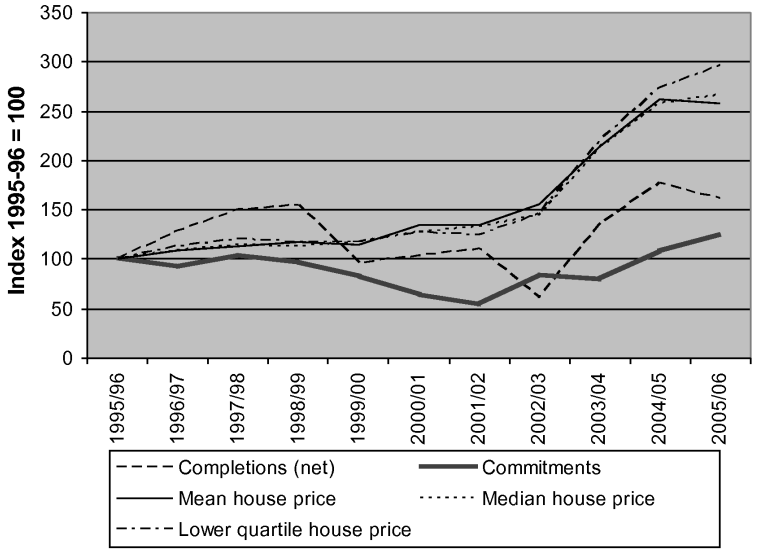
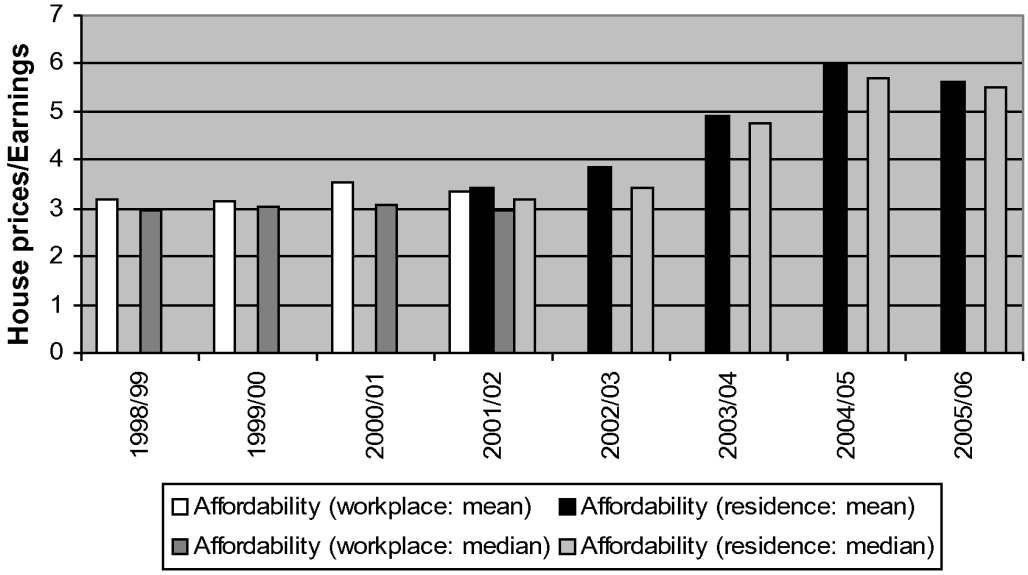



***Figure 35: Darlington affordability ratios***



# Planning or Market Freedom

This chapter draws on the evidence from the case studies and on the analysis in earlier chapters to assess the influence of the planning system on house prices and housing affordability. It suggests the role that planning should be encouraged to take, and briefly evaluates the likely consequences of a more demand-led pattern of development.

## The practical evidence

### Housing markets

The case studies investigated the housing markets and land supplies in a variety of circumstances around England. House prices increased in all areas studied, by varying amounts and in varying percentages. Incomes also increased, but after taking these into account the 'real' house price increase were still significant (though lower) and continued to vary. The changes are indicated in Table 4.

The most recent key data, for 2006, are presented in Table 5 using median figures. They show that residents in all areas had similar median earnings other than the low-wage areas of Torridge and Darlington. Two areas in South West England had particularly severe affordability problems, most likely due to the impact of demand for retirement and second homes: West Dorset having especially high prices and Torridge especially low earnings. The impact of the booming economy in Cambridge had partially dissipated its impacts on earnings and house prices when examined at the County scale, (also no doubt influenced by commuting to high incomes in London). Kent had similar affordability problems to Cambridgeshire, with Gravesham and Dartford residents having slightly greater incomes than the Kent average probably due to the ease of access to the London job market from these districts. The area with by far the lowest house prices, Darlington, remains the most affordable, but only a little more than in the next most affordable location, Gravesham, where house prices are 45% higher.

Houses prices in 2002 were more affordable to residents than they were to those working in the area, at the median level, in all areas studied except Darlington. This means that there was some tendency for residents of each area to work elsewhere, where higher earnings were available. Darlington had joined the majority by

***Table 4 House price changes 1998-9 to 2005-06 adjusted for earnings***

| Authority | Increase in median house price (%) | Increase in median earnings by place of work (%) | Increase in median cost of a median-priced house (%) |
|---|---|---|---|
| West Dorset | 156 | 55 | 65 |
| Torridge | 186 | 40 | 104 |
| Kent | 149 | 32 | 89 |
| Cambridgeshire | 127 | 38 | 64 |
| Dartford | 160 | 46 | 78 |
| Gravesham | 136 | 25 | 89 |
| Darlington | 134 | 30 | 80 |

***Notes***
House prices from DCLG Live Table 582
Earnings from ASHE: place of work figures available back to 1999 (the preferable figures for place of residence are only available back to 2002)

2004. However the earnings available to those working in Dartford increased very quickly after 2002 and overtook the earnings of those living in Dartford (at the median level), suggesting that economic regeneration in the area was paying dividends.

The trends in housing market data across each of the case study areas provide further evidence of the forces shaping local experiences. Housing affordability at the median level has deteriorated significantly in all areas. The longest sequence of data relates house prices to earnings by place of work (Figure 36).

The most marked deterioration in affordability in terms of multiples of income required to buy a house was in the South West in Torridge (with the lowest median income of all case study areas) and West Dorset (with the highest median house price of all case study areas). These two areas were the least affordable in 1998-99 (with median house prices over five times median incomes), and by 2005-06 both had affordability ratios in excess of nine whereas no other area had a ratio above eight. The deterioration can be attributed primarily to high house price growth rather than to low earnings growth.

**Housebuilding**

Housebuilding rates varied between the case study areas and also illustrated different trends over the last decade or more. Housebuilding rates have also been inconsistent from one year to another, particularly at the district level. In this respect they have differed from the more even trends in house prices and affordability in each area.

The most striking feature from the case studies is that trends in housing completions do not track trends in house prices or affordability in any reliable way. Housebuilding has failed to have any detectable impact on housing affordability. In West Dorset and Torridge (the sampled areas with easily the worst affordability, and worst deterioration in affordability in terms of increased multiples of income), there was hardly any increase in housebuilding over the last decade. In Cambridgeshire, Darlington and Dartford, significant increases in construction in most of the last four years follow clear declines in output trends after 1997-98, while the increases in Gravesham in the last four years mainly reflect the very low output beforehand. Any recent indications of rising supply cannot reliably be tied to rising house prices and deteriorating affordability as these have persisted over the whole period.

The evidence from the case study of Poundbury in West Dorset demonstrates that significant releases of land for housing can result in house prices rising locally rather than falling, where the development is of high quality. The evidence is consistent with the view

***Table 5 Housing market data by area (2006)***

| Authority | Median house price | Median earnings by place of residence | Median affordability |
|---|---|---|---|
| West Dorset | 225,000 | 23,056 | 9.76 |
| Torridge | 175,000 | 18,911 | 9.25 |
| Kent | 182,000 | 25,150 | 7.24 |
| Cambridgeshire | 181,995 | 25,345 | 7.18 |
| Dartford | 177,500 | 25,795 | 6.88 |
| Gravesham | 167,500 | 27,835 | 6.02 |
| Darlington | 115,000 | 19,920 | 5.77 |

*Sources*: ONS Annual Survey of Hours and Earnings, DCLG Live Table 586

that higher prices at Poundbury pulled up the average price of a house in Dorchester closer to the West Dorset level during the study period (though an insufficiently detailed study was made of the transactions in Dorchester and West Dorset to be certain of this). At the same time there was no clear indication that the volume of housing supply at Poundbury had any impact in depressing prices in the wider district, (though, formally, the possibility cannot be ruled out that house prices in the area might generally have been even higher but for the quantity supplied at Poundbury). This finding is consistent too with Department for Communities and Local Government research[21], which found that 'land release may have a regenerative effect and hence increasing the supply of land could lead to house prices rising more quickly' (paragraph 12).

**Housing land supply**

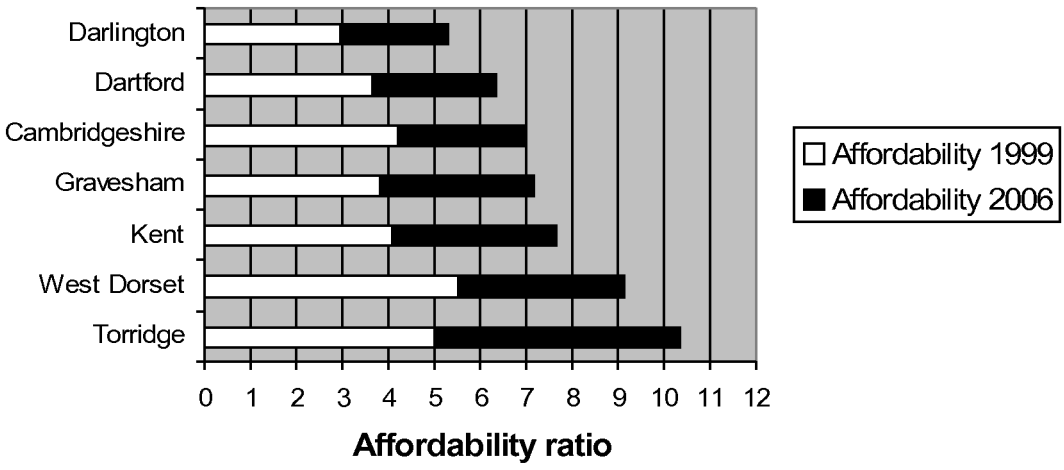
The scope for future development lies to a considerable degree in local authorities' housing land commitments, comprising sites with planning permission and land allocated for development. The correct measure of these commitments is achieved by comparing housebuilding with the annual dwelling supply an authority is expected to achieve, as indicated in the development plan for the area. The numbers of years' supply represented by commitments are indicated in Table 6. This gives both the most recent data and the average of the last ten years (except that data on allocations [not permitted] are not available to make this comparison in Cambridgeshire).

Table 6 shows that, with the exception of West Dorset, all the local authorities have current commitments to supply housing land sufficient for well over ten years at planned rates of provision. In West Dorset the supply of just over six years is sufficient to meet the requirement in PPS3 *Housing* for an ongoing supply of five years' deliverable housing land[22]. Furthermore, planning permissions in the district account for just over four years' supply, indicating no immediate shortage of land.

The evidence has shown that in some areas the targets have at times been set too high for the market to achieve (e.g. in Torridge and for periods in Dartford and Gravesham). This also appears to be the case in Cambridgeshire, where the annual average requirement of 3,376pa (excluding Peterborough) in the 2003 Structure Plan has only been achieved in the most recent year of 2005-06 and has averaged 2,902. In West Dorset, the dwelling requirement of 529pa has just been achieved on average over the last ten years.

This study has found no reliable evidence that housebuilding rates respond to increased housing land supply. There has been a significant failure of the housebuilding industry over many years to take advantage of very large amounts of land available for building even where house prices have been rising

***Figure 36: Affordability ratios in the case study areas (median by workplace)***



quickly, such as in Gravesham, Dartford and Torridge. Caution should be exercised when comparing trend figures in housebuilding and land supply, particularly when land supplies are already very large. For example, in Gravesham there does appear to be a correlation between rising commitments and rising completions after 2000-01, but this should not lead to the conclusion that higher land supplies are encouraging greater construction: raising output from 100 to 200 dwellings annually is hardly likely to be the consequence of increasing commitments from around 3,800 to over 4,700 plots.

In all the case study areas there have been substantial amounts of land available for housebuilding throughout the study period. The case studies show that this is the case not only at district level but across the two counties studied (Cambridgeshire and Kent). Evidence presented in chapter 3 similarly showed that the supply of land for building in the South East region was both ample (at more than eight times policy requirements) and increasing. This suggests that the point at which a deficiency of land could significantly hold back housing construction is set below (perhaps well below) the amount of land available in all the case study areas.

Furthermore, sufficient land remains available with the certainty of planning permission (rather than allocated for development by local authorities) in all the case study areas. Permissions are typically available for between four and seven times the prevailing output, and this has been the case for many years. As permissions expire after three years if unimplemented, distinctly larger landbanks with planning permission would be or little benefit, (even allowing for dwellings not yet constructed on large sites for which permission has been granted). In particular, the supply of planning permissions in Torridge has been excessive, often standing at seven times the rate of the year's construction and sometimes lapsing without being implemented even though the district has one of the worst affordability ratios in the case study areas.

The case studies demonstrate that in none of the areas studied could any failure of the rate of housebuilding to respond to rising house prices be attributed to an inadequate supply of land through the planning system. The margin for error in the supply of land has been less in West Dorset than elsewhere, but is still sufficient in policy terms and supply is rising.

## Implications for the Barker *Review of Housing*

Kate Barker identified 'a weak response of housing supply to demand changes' in the summary of her report, where demand was expressed as the ratio of house prices to incomes. The case studies confirm this 'weak response', although this is not altogether surprising as housing is more affordable on another more relevant measure (see Figure 2 above showing mortgage repayments as a percentage of income).

***Table 6 Housing land supply as a multiple of annual requirements***

| Area | Years' supply (10 year average) | Years' supply at 2006 |
|---|---|---|
| West Dorset | 6.1 | 6.2 |
| Cambridgeshire | N/A | 11.9 |
| Gravesham | 17.0 | 28.2 |
| Dartford | 27.6 | 33.1 |
| Kent | 10.5 | 15.6 |
| Torridge | 11.4 | 12.6 |
| Darlington | 8.9 | 12.4 |

Kate Barker argued following the evidence of rising house prices that 'A key factor underlying the lack of supply and responsiveness is an inadequate supply of developable land. More land will need to be released or made viable for development, if housing supply is to increase' (paragraph 1.6). This was a central argument arising from her study and was taken up strongly by the Government as a basis for policy. One of the most striking features of her report is nonetheless that at no point did she present any information on land supply. The apparent shortfall in construction (in response to a stimulus from rising prices) was assumed to be due to a deficiency of land for building, but there is no evidence that this was tested.

The present study demonstrates that this crucial assumption was wrong. Not only do all the case study areas have land commitments in excess of five years' supply, as required by current policy, but most have substantially more. With this quantity of land available, there should have been no inhibition on building for lack of land, yet the supply failed to respond significantly to rising house prices in the way that Kate Barker envisaged it should.

The sufficiency of supply identified cannot be attributed to any quirk in the data:

> although only a few local authority areas have been studied, two of those are counties covering large areas and both of those are expected to contribute to significant housing growth: Kent, which has superior data, has over 15 years' land supply and substantially more in its two districts closest to London and which are within the Thames Gateway growth area;

> land supply in the South East region, one of the areas under heaviest pressure of housing demand, has over eight years' housing land supply at current policy rates and this has grown in recent years;

> the land committed cannot be held to be 'in the wrong place' or 'not available' since typically four to seven years' supply has planning permission (which developers considered it worth the trouble to obtain): this is as much of the total commitment as is sensible, given that unimplemented permissions lapse after three years.

The finding that land supply is not having a significant impact on housing construction rates calls into question other recent claims that:

> 'There is a positive relationship between land supply and the rate of housing delivery'[23]; and

> 'The most important factor in this supply model, as in other models in this tradition, is the supply (stock) of land available with planning permission for housing. Although this variable is quite powerful and significant, it should be noted that its effects are also less than proportionate, with an elasticity at the mean of 0.55... for each extra 100 planning permissions, output rises by just under 8 units per year.'[24]

This seems conceptually flawed since:

(i) more building obviously requires more permitted dwellings, but that does not mean that permitting more dwellings will force more building;

(ii) permissions are usually only obtained near to the time at which they can be implemented, as the Gravesham and Dartford case studies illustrate: both the permission and the building are the consequence of other forces – principally the developer's perception that there is a profit to be made – and should not be treated as if one is driving the other;

(iii) permissions can measure aspiration more than reality, as the Torridge case study illustrates, particularly when there are more permissions than the market can take up before some of them lapse.

This finding has major implications for Government policy on housing land supply. 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 in essence the land supply made little difference: the decision to build (or not) was more strongly influenced by other factors.

Kate Barker also noted that substantial extra building would be needed simply to slow the rate of price growth: 'To reduce the real price trend to either 1.8 per cent or the EU average of 1.1 per cent would require between 70,000 and 120,000 additional houses to be built each year' (paragraph 1.40). This very modest impact of new housebuilding on house prices has of course been confirmed by the Reading report. This is consistent with other evidence that house prices are controlled to a large degree by financial influences on demand. There is no evidence from the case studies which calls this point into question. Locations were found when housebuilding rates did indeed rise over a few years, but these were all during periods of rising house prices: the implication is that rising house prices can (but do not necessarily) generate more interest in housebuilding, not that increased building holds down house price rises. Periods of rising prices and falling output within Cambridgeshire, Gravesham and Dartford are consistent with this. However, conclusions on the relationship between building rates and house prices should be drawn cautiously from the case studies for two reasons:

> for the most part, house prices increased regardless of the rate of housebuilding; and

> housebuilding rates vary at the district scale from one year to another, so establishing the relationship with house prices, let alone cause and effect, can be difficult.

These findings prompt the need to address two further issues:

> if insufficient land is not constraining housebuilding, what is?

> what contribution remains for the planning system to make to housing affordability?

## Reasons for unresponsiveness in housebuilding rates

This investigation has found that housebuilding rates cannot be demonstrated to respond clearly either to the stimulus of available land on the supply side or the stimulus of rising house prices and deteriorating affordability on the demand side. Resolving this is beyond the scope of this study, but there does appear to be a friction within the market at the developer level, and this appears most likely to be explained by the economic dynamics of the development process.

Forces at work are likely to include the following:

**(a) Land-banking**

Rising house prices drag up residual land values, so for a period there is money to be made by not building. The increase in the value of the land accrues meanwhile to the developer. This 'land-banking' by housing developers also has benefits in demonstrating a guaranteed future market, which supports share prices. Following earlier work by CPRE, recent evidence from the Royal Town Planning Institute suggests that land-banking is alive and well: their report Opening up the Debate: Exploring housing land supply myths (June 2007) found that 'permissions are held by the top nine housebuilders for nearly 225,000 homes – enough for 2.7 years' building in their current rates of completions.' From this the RTPI recommends that 'House builders should declare the amount of land they currently control with planning permission in each local authority area in a transparent and consistent way so that this figure can be used in the Annual Monitoring Report that forms part of the local development framework system. These can then be aggregated to form a regional data bank. It becomes very difficult to plan for future allocations of land or to understand the dynamics of the housing market in relation to land availability without such information.'

Research is needed into the reasons why many developers fail to proceed to completion once they have secured planning permission. The timely announcement of a study by the Office of Fair Trading should enable these issues to be explored further.

**(b) Assessment of the market**

The private housing market may not be exhibiting in commercial practice the scale of supply problem that trends in affordability suggest, resulting in private developers seeing no particular benefit in raising overall build rates. The evidence in chapter 2 above showed that, despite a deteriorating ratio of house prices to earnings (Figure 1), the indicator of mortgage repayment costs is less of a problem (Figure 2). The proportion of first-time buyers' incomes devoted to mortgage repayments remains less than in much of the 1980s, and there continues to be a steady flow of first-time buyers into the housing market. This was supported by increases in the mortgages that lenders were prepared to offer and increases in the deposits which buyers were making (often supported by money recycled from the sale of their parents' homes).

**(c) Risk aversion**

The housing development process remains a risky business. Developing in one of the most densely populated countries in the advanced world, and a myriad of interests to accommodate in the process (many of them brokered through the planning system) is a complex process which takes time and carries inevitable uncertainties. Developers will wish to be assured of a market for their product at the end of the process and the prospect of a solid return on their investment. An assessment is needed to determine whether the industry's approach to risk is over-cautious.

**(d) Structural difficulties in the building industry**

Kate Barker identified in the chapters 4 - 6 of the Interim Report of her Review of Housing that there were significant structural and practical difficulties besetting the private housebuilding industry, which needed to be addressed. These included:

> a cautious approach to investment in brownfield development;

> low levels of innovation;

> a lack of incentive to compete for customers once land has been acquired;

> controlling production rates on large sites to guard against house price volatility and to maintain sale prices;

> limited competition due to the concentration of much the industry in few companies;

> skill shortages; and

> weak productivity.

These matters, and perhaps others, require investigation as a priority, separately from any contribution which the planning system might make to affordability.

## The planning system's contribution to tackling housing affordability

This study has shown that there is no shortage of land for housebuilding, at least in variety of circumstances represented in the case study areas. It therefore follows that a lack of land for housebuilding is not a significant constraint on housing supply. Releasing additional land with the objective of reducing house prices therefore makes no sense. Nonetheless, would releasing much more land do any harm, given that this is a direct contribution which planning could make?

The planning system exists in part to ensure that land is allocated for competing uses in an efficient and effective way, maximising the benefits by ensuring land is used in the public interest and minimising problems. There is a clear requirement for a sufficient selection of sites for development, with 'sufficient' in effect currently established in planning policy as five years' supply of developable land. More than this will increase the flexibility on offer, but will progressively cause worse side-effects which should so far as possible be avoided:

> significantly increasing the choice of sites available to developers increases uncertainty about which individual sites will actually be developed, and creates difficulties when planning for infrastructure and other services associated with new housing development: the whole development process is likely to be more awkward and unsatisfactory for both participants and new occupants;

> the Government's policy of encouraging development on previously developed land would become more difficult to apply if additional sites (likely to be greenfield ones) are offered instead;

> housing development may relocate rather than be additional to that which would have arisen under a system with less land supply: places which need development, e.g. for regeneration, will be less likely to get it, because the incentive to go to such places is reduced and this will in turn widen the economic divide between the areas developers find attractive and the areas left behind to be addressed by public expenditure;

> the concept of 'planning' becomes an activity with a lighter touch, less able to steer development towards preferred locations and away from less suitable ones; this tends to result in the pain of planning procedures being followed without the gain of the positive results which would otherwise be possible.

Mechanisms other than land release are required to assist housing affordability. Chapter 4 above noted that the main impact of planning was to require higher standards of development than would otherwise be forthcoming in most circumstances, which tended to raise rather than lower house prices. As noted there, the quickest way to reduce house prices through the planning system is positively to encourage bad planning, so that standards of developments and their surroundings fall and are worth less. As with raising interest rates on the demand side, this is clearly undesirable, and the reverse of the Government's philosophy on the role of the planning system in improving places. Some more suitable suggestions are offered in the following paragraphs.

**(a) Create value by making better places**

High quality places, created through the planning system, will find buyers. This is desirable in itself, while from an economic perspective the capital gains and revenue streams created will be open to the Government to tax. This has long been widely viewed as 'fair' taxation: the state helped create the value in the first place and so should benefit from it. This is the philosophy behind the Government's current proposals for a 'Planning Gain Supplement'. Handled efficiently, this should be able to recover some of the increase in land value associated with development without inhibiting development significantly. The wealth generated could be applied to tackling affordability problems.

**(b) Pinpoint housing requirements more accurately and satisfy them**

Ensuring that everyone has a suitable home which meets their needs does involve judgements about reasonable expectations, and inevitably involves intervening in the market. This should address not only the needs of those unable to buy or rent on the open market, but reasonable needs in the private sector too. There are certain groups, which are likely to vary from place to place, which might benefit from assistance, particularly to ensure that sufficient dwellings are built and then made available at a realistic cost. There may for instance be a shortage of sheltered accommodation, family homes affordable to large households at the poorer end of the private market, or housing for students or migrant workers. In each case, provision of housing is likely to be accompanied by a need for supporting financial infrastructure to ensure that the accommodation is financially accessible to those at whom it is targeted. The planning system could exert a greater influence over the size, type and tenure of accommodation which the private sector supplies, in a more serious effort to match provision to needs.

**(c) Tackle inequalities in housing environments**

Urban regeneration is already a major Government activity, but there is more that the planning system could do to help. Stimulating housing markets (deliberately aiming to make property more expensive and attractive) is a central feature of much regeneration, especially in the Housing Market Renewal Pathfinder areas, so planning practices should be encouraged which support development and economic activity in the areas which need it most. This will progressively help to reduce the differentials between places and between regions, dampening the tendency towards polarisation between rich and poor

areas. Planning cannot do this by itself, but the alternative – of providing much greater market freedom to developers to go elsewhere – will surely entrench the problems which regeneration is trying to resolve.

All these ideas involve:

> more planning rather than less;

> long term commitments;

> an acceptance that the market does not know best;

> benefits foregone by those whose excessive demands would not be met;

> a more co-operative approach to meeting wider social objectives.

The National Housing and Planning Advice Unit could build an agenda around these planning issues and around related initiatives in housing policy.

# Recommendations

**The National Housing and Planning Advice Unit should:**

Examine the consequences for low- and medium-demand areas of freeing up the housing market in high-demand areas.

Review the mechanisms and opportunities for housing development to create value through the development process, (rather than capture the existing value of locations which are attractive for development).

Identify housing needs currently not met due to affordability problems and recommend planning, financial and other incentives to address them.

Investigate when a decline in house prices should be attributed to the satisfying of demand by the supply of additional housing or to the decline in quality of the places where the additional houses were built.

Reassess measures of affordability in the housing market to take into account access to capital wealth as well as incomes.

Redefine affordability in terms of households' access to the housing they need, covering the social sector as well as the market sector, recognising that:

> the market will never meet the needs of many social sector households;

> issues such as overcrowding are neglected across all sectors under current definitions of affordability;

> housing benefit and similar types of assistance address the symptoms of the housing problem but there may be scope to reform the personal taxation regime by tying it more overtly into access to a suitable home.

Propose reforms to incentivise the housing development industry to build additional houses in response to house price stimuli, by taking forward the work of Kate Barker's Interim Report on Review of Housing Supply, including incentives to discourage excessive landbanking by building firms.

Research how the planning system and other appropriate measures might support a more even geographical distribution around England of locational advantages, and reduce the incidences of very high demand and very low demand for housing.

Assess the extent to which a shortage of affordable, ie social housing, has increased stress in the private sector, increaasing house prices and worsening affordability.

Investigate a range of influences on house prices (in addition to the four reported in this study – urban green space, school catchment areas, windfarms and trees).

**The Government should:**

Invest in training for HM Treasury and other Government Departments in the role, functioning and capabilities of the town and country planning system.

Research the means by which taxation and other measures could promote the purchase of housing for personal occupancy rather than as an investment, including addressing:

> the recycling of inherited wealth into property;

> mortgage lending policy;

> borrowing against house values.

Assess the impact of infrastructure constraints on housing supply.

**Regional Assemblies and local planning authorities should:**

Monitor housing land supply in more detail; collate accurate information on housing land allocations; and distinguish between outline and full planning permissions.

**House builders should:**

Declare the amount of land they control with full and outline planning permission to each local authority in a transparent and consistent way for use in the local development framework annual monitoring report.

# Appendix 1: Remit of the National Housing and Planning Advice Unit

The NHPAU's objective is to advise Government and the regions on the implications for the level and broad distribution of future housebuilding of the Government's national ambitions for long-term market affordability and housing supply.

To provide and publish authoritative, non-binding advice to Government, the relevant Regional Assemblies (RAs) and the Mayor of London for the Regional Spatial Strategy (RSS) process (in London the Spatial Development Strategy (SDS) process), on:

(i) a distribution of regional affordability targets that would be consistent with the Government's overall ambitions for housing affordability and supply;

(ii) the methodology for translating regional affordability targets into housing numbers;

(iii) its assessment of the implications of the recommended regional affordability targets for the level and broad distribution of future housebuilding in the region

To develop its advice in dialogue with the RAs, the Mayor of London and other regional stakeholders. The NHPAU should quickly establish strong clear links with these bodies. It should also seek to establish good working relationships with other relevant bodies to ensure consistency and to avoid duplication: for example the ONS, the Regional Observatories and the Academy for Sustainable Communities.

To provide authoritative advice to the Examination in Public on the RSS /SDS, including advice on the affordability implications of proposals for housing put forward by the RA or Mayor of London within the RSS /SDS and their consistency with other relevant regional strategies.

To encourage the compilation of nationally-consistent regional evidence in support of the preparation of the RSS/SDS and other relevant regional strategies.

To disseminate and help Government and the RAs develop consistent methodological practice in assessing the implications for economic, social and environmental sustainability at different spatial scales of different quantities and distributions of housebuilding.

To commission research and disseminate good practice in support of the above activities.

# Appendix 2: Data Used and their Sources

## Land supply

The standard breakdown of information intended in the case studies comprises the number of dwellings in a local authority area with planning permission and the number allocated on housing sites in an approved development plan, as at 31st March each year. The intention has been to provide a measure of sites where development can definitely proceed and of sites where development is highly likely to be able to proceed if planning permission is requested.

This approach omits entirely from assessment the prospect of 'windfall' sites which become available unexpectedly and could not have been predicted. It also tends to omit 'small sites' (typically five dwellings of fewer) which many local authorities consider to be too detailed to be worth identifying in plans (even where that is possible). In urban areas and the older parts of long-established towns, windfall and other small sites typically make a highly significant contribution to overall completions. Occasionally they can supply the entirely of the houses intended in selected local authority areas. They are highly desirable as a source of supply, since they are usually previously used land (saving the need to build on greenfield sites or to provide new infrastructure) and because they help to keep the urban fabric in use rather than left to go derelict. Houses built on windfall sites are included in the 'completions' data, but these case studies make no allowance for future supply on them. This is in line with policy in PPS 3 *Housing* (DCLG, 2006).

The detail and quality of information on land supply held by local authorities varies. Some authorities only hold long runs of data on planning permissions, and do not have historic information on allocated land: this affected the case study of Cambridgeshire. Conversely, many authorities are able to distinguish planning permissions between dwellings under construction and those not started (though this distinction has not been used in the case studies). Occasionally, data are missing from the sequence for one or more years. This may reflect staff shortages at the time, a temporary switch of emphasis away from monitoring, or the loss of a year's data when monitoring was put on a more immediate footing rather than many months in arrears.

There are various complications which can arise regarding the detail of which kinds of sites are included or excluded. For example, an outline planning permission awaiting the resolution of reserved matters or a legal agreement would in most cases be counted as a 'permission (not started)', even though formally the developer could not begin construction on the site immediately. There may also be sites counted as allocations which do not appear in an adopted development plan: these could comprise sites where the local authority has passed a resolution in favour of housing development, sites with lapsed permissions which the authority continues to support, or sites identified in redevelopment proposals expected to proceed, amongst others. Although there is never certainty that a development is allowed to proceed until a detailed permission is finally approved, plots identified as 'allocated' in the case studies nevertheless provide a sensible indication of the likely acceptability of development.

Finally, all the figures on land supply (as well as the figures on completions – see below) refer to supplies for all tenures, not just private housing for sale. Most authorities do not have historic data which could distinguish these components, and in any event the practice in recent years has been for larger sites to comprise mixed-tenure developments so that sites cannot meaningfully be distinguished in advance by tenure. The assumption should not be made that social affordable housing comprises a constant proportion of dwellings built or on the land available. Nonetheless, the large majority of new homes built are in the private sector, so the figures supplied offer a reasonable measure of construction, and opportunities, relevant to house prices and affordability.

## Completions

The case studies use local planning authority data on completions. These cover annual completions to 31st March each year. They differ from published Government figures on housebuilding principally because (a) they include conversions and (b) they are net of demolitions (rather than gross). In most cases, completions and future housing land supply (often called 'commitments' in planning documents) have been identified over the years by site survey, and this

is likely to be reliable (provided the surveys were completed). There have been efforts to standardise data for planning and building control purposes in some authorities, which may have caused transitional problems, but it is doubtful whether the discrepancies are significant. For the purposes of these case studies, no distinction is made between dwelling types completed (e.g. terraced, detached, semi-detached, flats).

## House prices

House price data are for the most part taken from DCLG Live Tables 581 and 582. These provide house prices at the district level for each quarter since 1996 Q1 at the mean and median levels respectively. The figure for the first quarter of each year has been taken, to be as close as possible to the 31st March data to which the land supply figures apply. While data at the lower quartile level is of more relevance to first-time buyers, the mean and median figures provide a more reasonable measure across the whole housing stock with the median playing down the impact of very expensive houses. They also relate better to the completions and land supply data which are for 'all homes' (rather than just the types of home most first-time buyer might be expected to purchase).

For one specific purpose in the Poundbury case study, house price data were taken from Rightmove at the postcode scale, (derived from the Land Registry).

District house price data extend further back than data on district earnings, so house price data (rather than affordability) have usually been used in their own right for comparison with completions.

## Incomes

Earnings data are taken from the ONS Annual Survey of Hours and Earnings (ASHE), taking the gross annual earnings of all people in full-time employment. These tables supply mean and median figures for like-for-like comparison with house prices. As noted in chapter 2, the earnings are of individuals rather than households: this is less than ideal though the data for each year are at least on this consistent basis. The ASHE data are for calendar years. For comparison with financial year data, they have been treated as applying to the first quarter of a calendar year and therefore comparable with other data sources which cover the final quarter of financial years (e.g. the ASHE 2006 data are set against completions for 2005-06). The small distortions this creates are compensated by adding an additional year to the data sequence, while the consistency of approach allows trends to be identified.

Earnings data have for many years been collected geographically according to where people work (the earnings available in a place): 'workplace' earnings. However, from 2002 ASHE has also published earnings data according to where people live (the earnings of residents, wherever they work) at the local authority scale. This new information is clearly the more appropriate measure for comparison with house prices. The approach used in this report is to use the earnings-by-residence information back to 2002 and the earnings-by-workplace for earlier years to the start of the series in 1999, showing both sets for 2002.

Affordability data were calculated from incomes and earnings, using both the mean and the median figures.

# End Notes

1 Clive Dobbs, February 2007, *Patterns of pay: results of the Annual Survey of Hours and Earnings*, 1997-2006, Economic and Labour Market Review, Vol 1, No 2.

2 Ibid.

3 This has previously been addressed in the CPRE reports *A Basis on which to Build* (2004) and *Building on Barker* (2005).

4 See for example *The Times*, 20 June 2007, page 7.

5 David Miles is Chief Economist at Morgan Stanley.

6 Glen Bramley et al, May 2007, *Transforming places: Housing investment and neighbourhood market change*, Joseph Rowntree Foundation.

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8 Commission for Architecture and the Built Environment, 2005, *Does money grow on trees?*, CABE Space.

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15 A survey of estate agents in Warwickshire found that properties on tree lined street were more in demand and tended to sell faster, Warwickshire District Council, April, 2007. See also National Urban Forestry Unit (2005).

16 *Bold Colliery Community Woodland,* District Valuer's Report on Property Values, Forestry Commission, North West England Conservancy.

17 Department of Communities and Local Government, *Green and Public Space Research: Mapping and Priorities*, June 2006.

18 Amion Consulting and Taylor Young, March 2007, *The Economic Value of Urban Design*, NWDA/RENEW North West.

19 Glen Bramley et al, May 2007, *Transforming places: Housing investment and neighbourhood market change*, Joseph Rowntree Foundation.

20 Reasons for this include:

> the development pipeline from policy change to additional homes for occupation is a matter of years rather than weeks;

> the addition to the stock of homes provided by new construction is around only 1% annually;

> the supply of dwellings on the market is dominated by 'second hand' homes (usually about 90% of the market), but their numbers can fluctuate by more than the number of new homes on the market (e.g. there may be reluctance of existing owners to sell due to either the cost of stamp duty on high house prices or holding out in the belief that prices will rise further).

21 *Planning for Housing: Market Signals – Summary of Research*, 2007, Planning Research Summary No. 8, DCLG.

22 PPS 3 *Housing* states at paragraph 57: 'Once identified, the supply of land should be managed in a way that ensures that a continuous five year supply of deliverable sites is maintained ie at least enough sites to deliver the housing requirements over the next five years of the housing trajectory' (emphasis in original).

23 *Planning for Housing: Market Signals – Summary of Research*, 2007, DCLG, Planning Research Summary No. 8, paragraph 24.

*24* *Glen Bramley et al, May 2007, Transforming places: Housing investment and neighbourhood market change*, Joseph Rowntree Foundation, page 96. See also page 103: 'The absolute amount of development is strongly related to the amount of land made available through the planning system'.

Campaign to Protect
Rural England

## Campaign to Protect Rural England

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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