

## Turning houses into gold - planning sacred cows re-examined: Or why the Greenbelt is not fit for purpose

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# Land & housing markets - problems of market failure

- There are endemic problems of market failure in land and housing markets – so cannot ‘just be left to unregulated markets’ - Need regulation – i.e. planning
- BUT - ‘Planning’ – an economic activity – allocates a scarce resource – land by exact use – agriculture, housing, commercial etc. So determines supply -
  - But allocates independently of price – and so generates price distortions
  - Regulation/planning to minimise problems of market failure: but is the outward spread of cities a result or cause of market failure?
  - People value space – in houses, in gardens and
  - Farmland ‘worth’ what it earns: unless some ‘social gains’ from preserving it

# Concern about 'Sprawl' but....

- Open space if accessible –within cities and externally – a public good:
- But value of normal open space falls with distance – 1km
- Empirical work demonstrates Greenbelt land has no value except to those with houses within it
- 'Sprawl' - concerns beyond demand for open space?
  1. Does compact development generate positive externalities e.g. energy use? infrastructure?
  2. A demand for '*visual amenity*' open space around cities?
  3. Or an 'option' demand for unbuilt land out there?
- Does less/no sprawl => generates a specific public good????
  - And/or [not mutually exclusive] does increased consumption of personal open space (gardens) threaten assets, privacy or aesthetic preferences of existing privileged ex-urbanites?

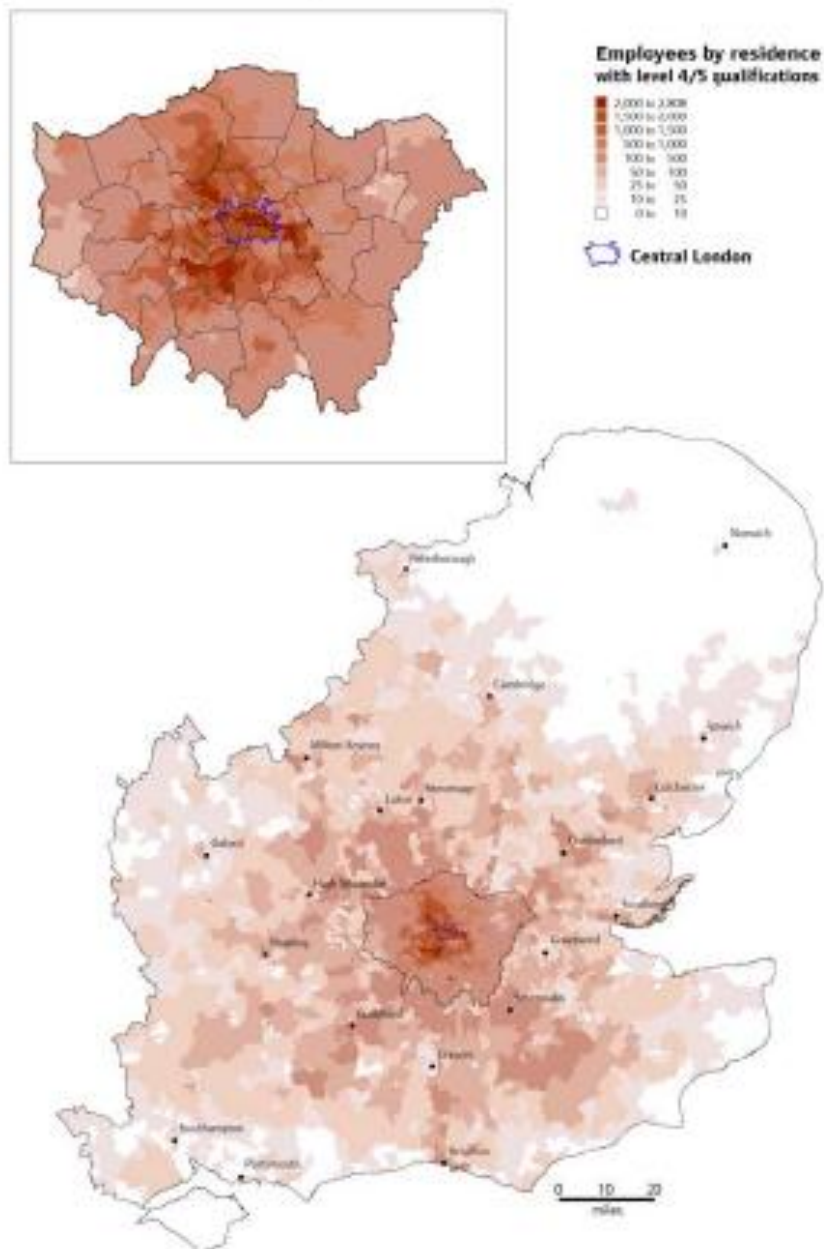
# Beware the Unintended Consequences of Regulation

- Land markets have endemic problems of market failure but – markets ‘get their revenge’
- The law of unintended consequences is powerful indeed
- Land use regulation or systems of taxation => generate incentive structures via price effects – change people’s behaviour.
- Very powerful policies to prevent sprawl in UK 1947 Act – Greenbelts imposed in 1955. Tight – near absolute - limit on urban expansion; coupled with height limits. So ‘rations’ space;
- Result? Price goes up; but space in houses + gardens demanded – demand rises with incomes
- Incentive to leapfrog; land price discontinuities; incentive to sell public land even if high amenity e.g. playing fields



**Result??**

Figure 41: Number of ward residents with Level 4/5 qualifications working in Central London

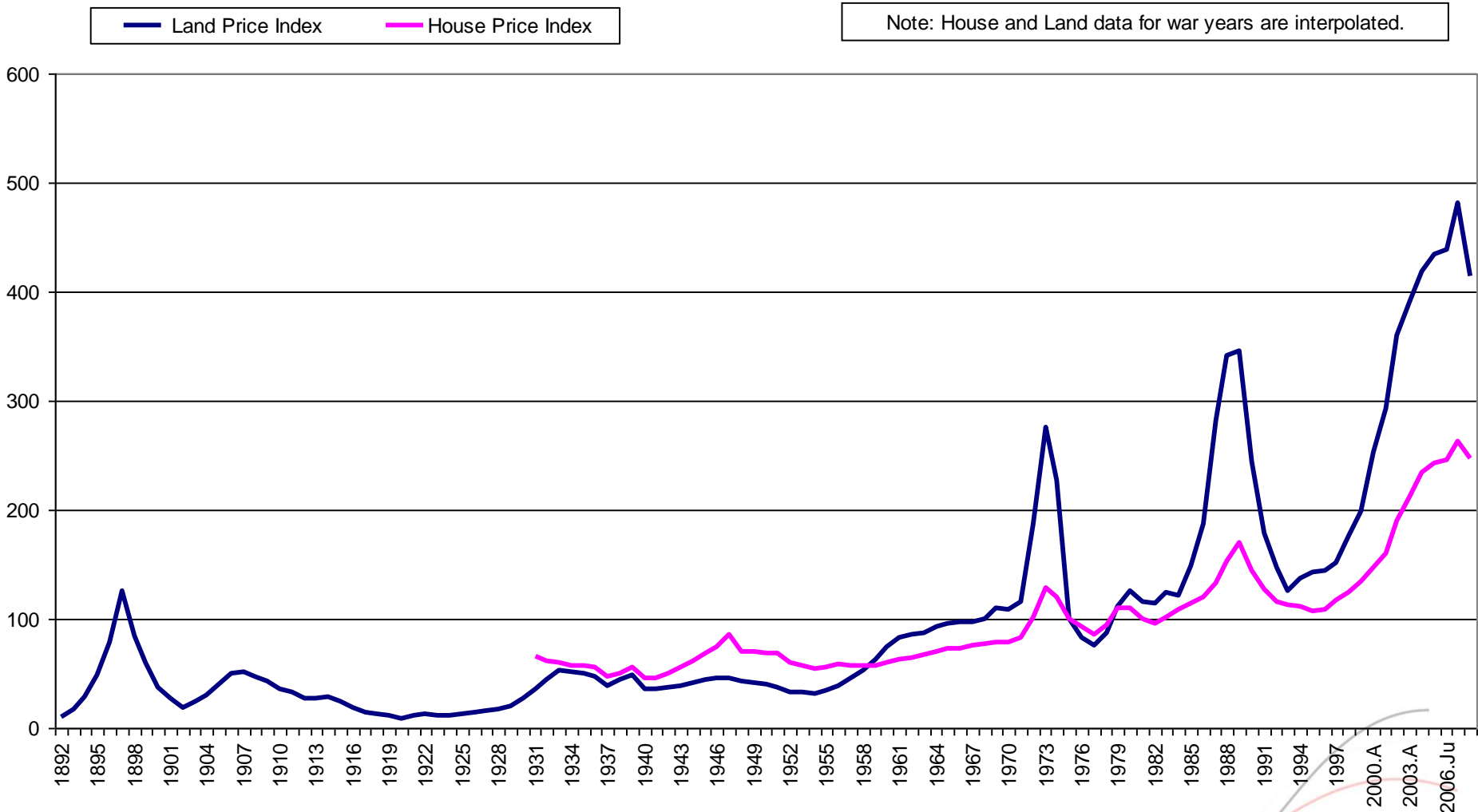


Source: 2001 Census

## Policy *plans* to ‘contain’ but people *choose* to behave in unintended ways

Highly skilled re-locate  
beyond the Greenbelt  
and commute from all over  
Southern England:  
Oxford, Cambridge act as  
high income ‘dormitories’.  
London’s carbon footprint likely  
increased compared to Paris.  
⇒research!!!  
Similar issue likely with planned  
creation of jobs+residential new  
settlements

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

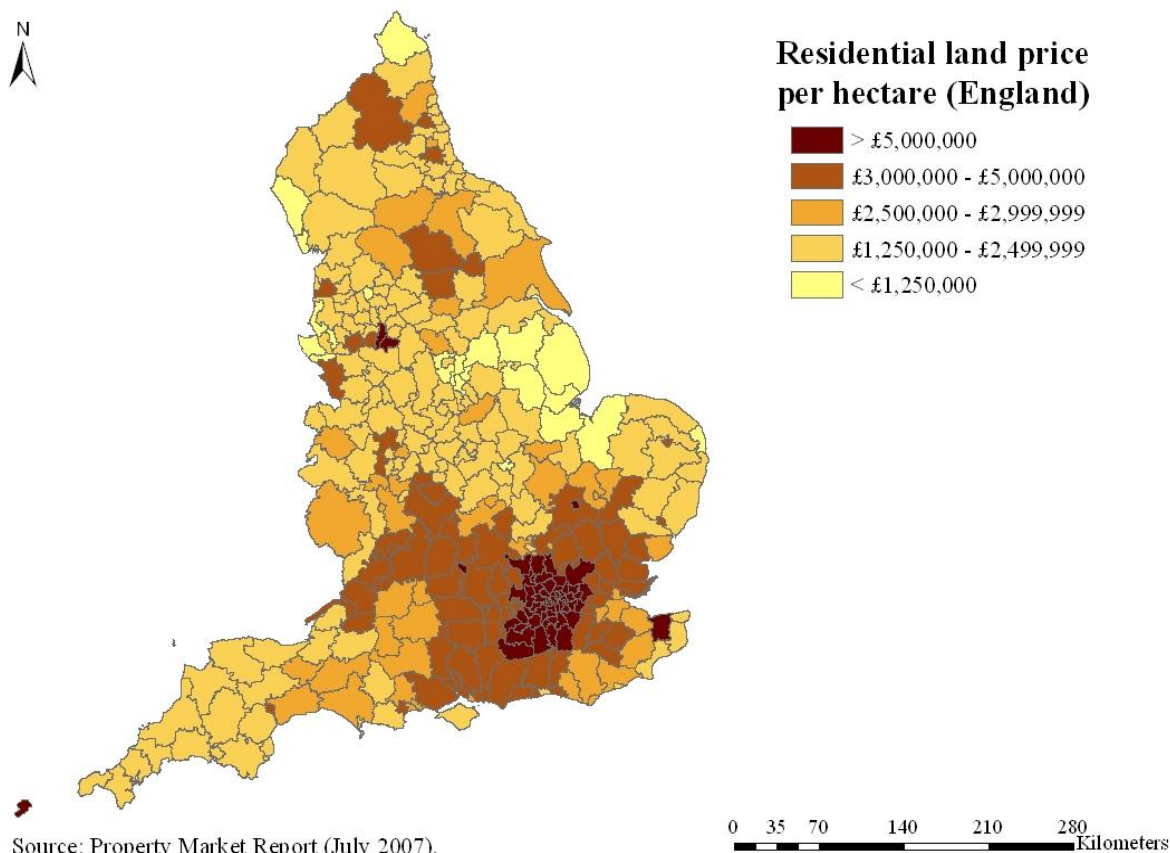


Note: House and Land data for war years are interpolated.

Paul Cheshire, LSE August 2009

# And Sustainability & Urban containment –“densification”

- Impedes city growth - so loses agglomeration economies: and increases price of housing; and makes housing market more volatile (see OECD Report on UK, March 2011)



UK been densifying since 1947  
Result?  
Price of land represents foregone agglomeration economies!



# Put another way: Result - crisis of housing supply

## 1. Housing supply:

- Under-building for 30 years: built 1.6 to 2.3 million too few homes in England & Wales in 20 years to 2012
- Things are bad – are they getting better?
  - Housing completions may have risen 10% but still near all time peacetime low for 110 years; & starts fell 10% last year – now recovered to low of 1992/3; planning applications flat lining
  - Affordability near 2007 worst ever: in London – **the worst**
  - Last 10 years been building systematically most houses where job prospects **worst** and unaffordability relatively **best!**
  - Basic problem – supply: & price elasticity of supply;

# The single most important cause is Planning System

SERC work demonstrating almost beyond reasonable doubt **causal** role of planning constraints on: house prices; house price volatility; spatial house price differentials; retail space, productivity and sales; costs of office space

- Most important single cause – **constraint on land supply** via Greenbelts and other restrictions: also other factors:
  - I. Greenbelt counterpoint: - Brownfield obsession
  - II. height controls in high demand areas;
  - III. (lack of) incentives;
  - IV. insider/outsider decision making;
  - V. complexity of system reduces entry & adds to costs esp. risk (e.g. S106 Agreements + CIL);
  - VI. Development Control not rule-based decisions – adds to risk;

# Quantitative restrictions on supply of land by 'use'

- Greenbelts conceived and boundaries defined in a different historical era:
  - Radical change in vision of efficiency of state and state planning;
  - Real incomes up more than 3-fold; population up x 1.4; car ownership up nearly 14-fold
- Leads to **serious** price distortions – discontinuities at 'use-class' boundaries e.g. edge of London
  - 32,500 ha of Greenbelt within GLA – get planning permission in Barnet – price from £10 000 per ha to £8 to £10m; similar outside Oxford
  - But outside most Greenbelted cities – substantial subsidy for golf & 'horseculture'
  - And price discontinuities between range of uses (e.g. industrial/residential) - big variations in supply/demand balance
- Why? Planning has historically ignored prices in land allocation

## Intensive Arable Land in English Greenbelts: percent

**MYTH 1: *Concreting over England***

**REALITY: Greenbelts cover 1.5 as much land as all urban areas; all urban less than 10%;**

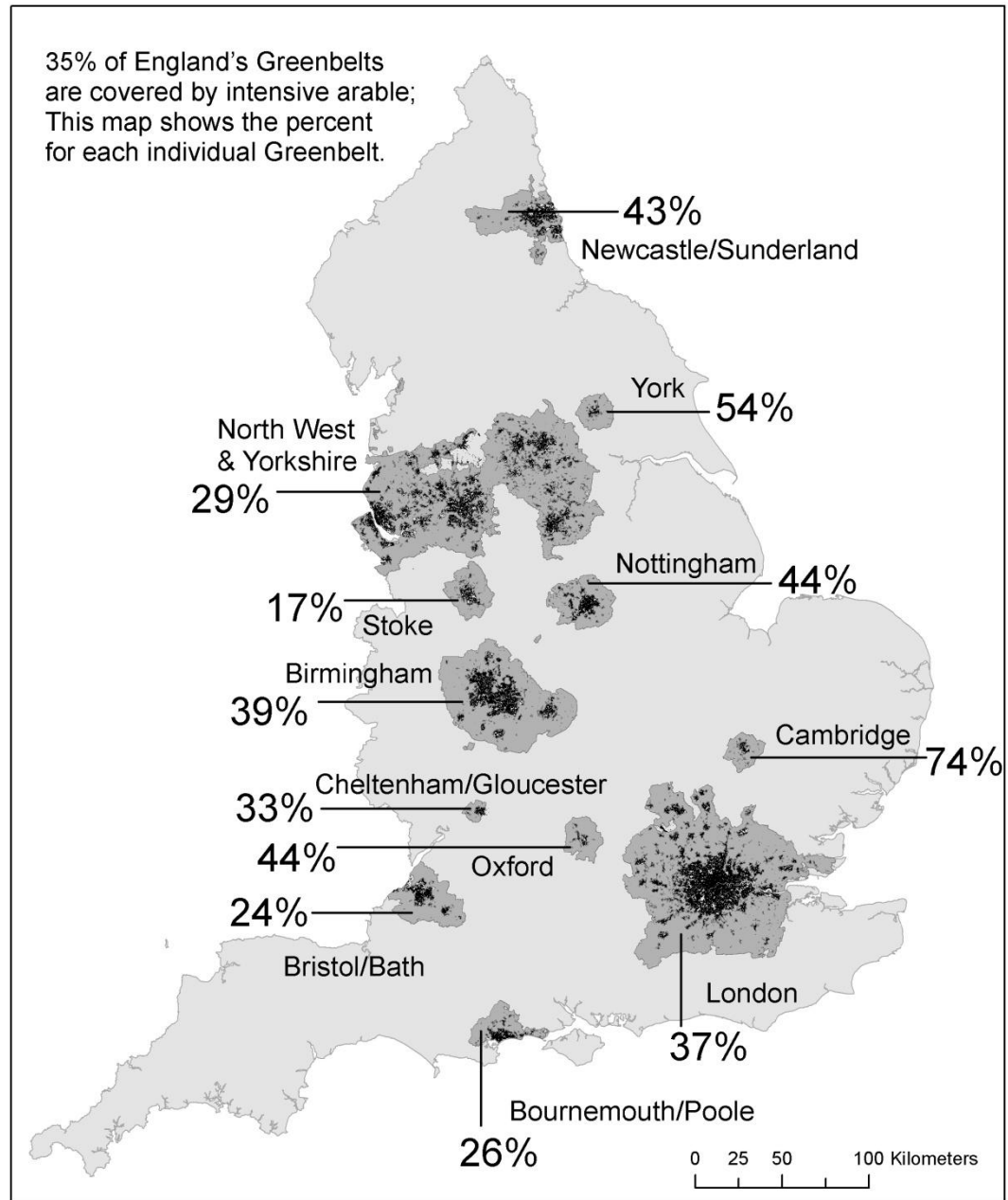
**MYTH 2: *Greenbelt land environmentally valuable***

**REALITY: biggest use - intensive arable e.g. Cambridge 74%**

**MYTH 3: *intensive farmland is 'green'***

**REALITY: No access & **NET** environmental cost per ha - compare parks & gardens!**

[*Nat. Ecosystem Evaluation, 2011*]



This map was prepared by Sevrin Waights. Calculations are based on Land Cover Map 2000. Intensive arable land was defined as use categories 4.1, 4.2 and 4.3 and so is a conservative estimate of 'intensively farmed agricultural land'.

# What would really free up housing supply?

Have to be radical – tinkering will not work: but a mix would be possible with varying balance depending on measures

- **Most important reform:** move to actively addressing market failures: not just respecting legal designations. **Protect** high quality environmental/amenity/scenic land more effectively
- So drastically revise Greenbelt designation ('super-Green areas?'); abolish 'Brownfield' priority (Gibbons *et al* 2011)
- Use price signals as material consideration: if premium exceeds - say - £500 000 per ha => presumption in favour of change of use **unless** premium reflects environmental/amenity value of land in current use; => so decide on basis of externalities & public goods - **not** designations

Practical implications – sort of places would get developed?

- Crossrail - change in time to Farringdon  
Taplow from 72 mins to 43  
Iver from 64 mins to 31













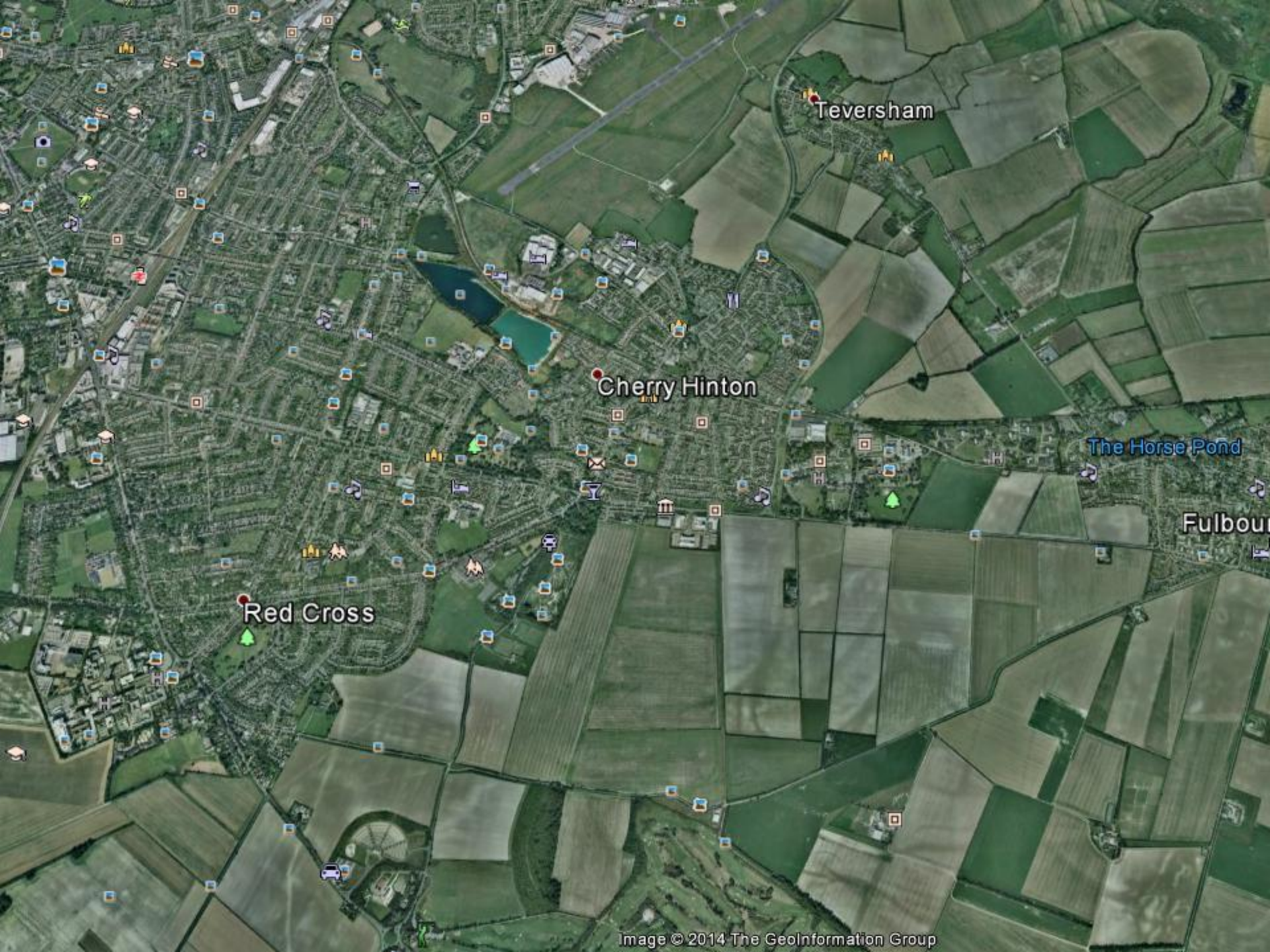




Elsfield

Marston





Teversham

Cherry Hinton

Red Cross

The Horse Pond

Fulbourn

# Implications

- **Greenbelts serve no worthwhile economic or social purpose but VERY severely restrict supply of land:**
- in effect exclusionary zoning - benefiting the housing haves already there
- Cover vast tracts of land with no environmental or amenity value: i.e. where no issue of market failure since food prices are already valid price signals in welfare terms (most of the price of farmland reflects tax avoidance value!)
- **Very small proportion enough to solve housing land supply issues for generations to come (32,500 ha in GLA area: at 50 houses per ha would give 1.6 million!)**



# Serious problem: Planning reforms- radical to work

- Introduce price signals, Impact Fees and Incentives: all would help a great deal: certainly varying mix. But
- Apart from welfare and efficiency losses – ever increasing dangers of instability & difficulties for monetary policy. Demand keeps rising with real incomes (& population)
- Increasingly divisive between housing haves and have-nots
- But as any observer of the British scene will understand proposals like these would meet fierce and bitter resistance.
- However in my judgement the question is not **will we** reform it but **when will we** reform it and will that be before a catastrophic collapse?
- Problem - radical reforms are politically unpalatable: but anything short of radical reforms will not work.

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