

Institute of Directors submission to the Barker Review of Housing Supply

4th August 2003

Dear Ms Barker,

Thank you for inviting the Institute of Directors (IoD) to contribute to the Barker Review of Housing Supply. We have noted your request that written submissions be kept as brief as possible and wish to make the following general remarks:

- In the South East of England a hectare of land with planning consent can be valued at more than 100 times the price of a hectare of agricultural land. This enormous difference is not derived from the environmental benefit of Green Belt policy. It is overwhelmingly the result of demand for land outstripping supply. Rigid planning controls have constrained the operation of the market.
- Planning policy reduces the supply of land for building and raises its price, as compared with a situation of non-intervention by Government. One recent study (*Welfare economics of land use regulation*, P.C. Cheshire and S. Sheppard, Research Papers in Environmental & Spatial Analysis, No. 42, Department of Geography, London School of Economics, 1997) found that the cost of containment was equivalent to a tax on household incomes of around 10% in the South East of England.
- Despite the scale and impact of intervention, a substantial release of land for development would not necessarily have a dramatic impact on the number of properties built. One study of the housing market in Reading (*British Planning Policy and Access to Housing: some empirical estimates*, P.C. Cheshire and S. Sheppard, Urban Studies, 1989) found that if all planning constraints were removed the area of the town might increase by up to 50%, but this would be largely accounted for by an increase in plot size. In other words, if land supply was to increase, with a resulting fall in land prices, house price income ratios for new properties would not fall, because people would simply buy larger houses with bigger gardens.
- Policy simulation models (*Land use planning and the housing market in Britain: the impact on house building and house prices*, G. Bramley, Environment and Planning A25, 1993) have suggested that even with a substantial release of land for development, housing supply might only increase 10% - with a 5% fall in house prices. Clearly, model simulations may/may not be an accurate reflection of reality, but they do suggest that large releases of land will be required to generate even small improvements in housing supply.
- There are significant environmental costs associated with existing planning policy. First, Green Belt policy contributes to a lengthening in commuter times. Second, because the price of land for development is higher, housing density is more intense. All too often intensity wins out over design innovation and space – bog standard housing estates in place of creative communities, such as Poundbury, the Duchy of

Cornwall's development in Dorchester. A recent study of the operation of the planning system in the South-East of England (*Land use planning, land supply and house prices*, S. Monk, B.J. Pearce and C.M.E. Whitehead, Environment and Planning A28, 1996) concluded that: "*it tends to generate a narrower range of housing types and densities than would be expected if the market were allowed to operate more effectively*".

- The IoD recognises the political challenge to freeing up more land for new housing but believes that it is imperative to do so. This is not to suggest the wholesale abandonment of existing planning policy. Instead, the IoD would urge the Government to recognise that there are large areas of the countryside, adjacent to many major towns and cities, which are not particularly attractive and could be designated for development. When combined with brown field development the outlook for housing supply could be greatly improved. Significant changes in planning policy will need to occur in order to promote the future prosperity of the UK economy. The recent proposals from the Deputy Prime Minister concentrate development in certain areas, whereas the IoD proposes a more even distribution of future development, which could potentially yield a greater increase in housing supply, without damaging attractive countryside.

We would be delighted at the opportunity to meet and discuss these and other issues arising from the review of housing supply.

Yours sincerely

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Chief economist