

The Barker review: summary of comments by Peter F Smith, 1st August 2003

My comments refer mainly to areas of Britain with high house prices, shortages of building land and (usually) low unemployment, such as the western half of south-east England. More details about my comments and suggestions are in the Appendix.

Issue 1 – Land Constraints

The main difficulty with supply of land is the shortage of land allocated by planning authorities. Changing this needs the full commitment of government; it requires a major challenge to the widespread and deeply entrenched “nimby” political culture.

Issue 2 – Industry Constraints

Shortages of skilled workers can be addressed by paying the market rate of wages needed to attract them in sufficient numbers. This could be best done by increasing the supply of building land enough to so reduce land costs substantially: the benefits would mostly go to house-buyers in the form of lower prices, but some could be used to increase the margin between land costs and house prices, allowing higher wages.

With the current high price of building land we have all the disadvantages of pressure on building costs without the advantage of affordable housing.

Issue 3 – Policy Environment

- There is not enough political support from central government for local planning authorities which take unpopular decisions in order to meet government housing targets.
- There is currently too much emphasis on the use of brownfield land as a panacea for all the industry’s difficulties, since most of it is in the wrong places. It is well worthwhile pursuing nevertheless; it may not work so well if house and land prices fall, as they need to do.
- The different tax treatment of new build homes as against conversion of existing housing stock is not relevant to the main problem of supply and demand for housing, though it does cause other problems.
- The private rented sector has a further problem: letting out residential property for rent is treated by the tax authorities as an investment rather than a trading activity. This makes it comparatively unattractive. Encouraging buy-to-let is helping but will not be sufficient by itself.

Issue 4 – Social housing and the rental sector

The high price of housing reflects the general shortage of building land. It inevitably means that the most serious effects are felt near the bottom end of the market. No other explanation is needed for the shortage of affordable housing for owner-occupation. The private rented sector is further inhibited by the unfavourable tax treatment of private rents as mentioned under issue 3, above. Reducing house prices and rents would reduce both the need for social housing and the size of any subsidy required per house, without reducing supply or increasing the rent.

In recent years the terms “private housing” (rented or owner-occupied) and “affordable housing” have been mutually exclusive. There is no good reason why this has to be the case.

General comments

Kate Barker is quoted as saying that she had not realised the strength of nimbyism until she began this review: she implies that this rather than faults in the planning system may be the main problem. This suggestion is exactly right. Nimbyism is more than a powerful political force: many people expect nimby considerations to override all other priorities in planning, as a fundamental and sacrosanct human right. This drives up the prices of housing and housing land and makes the planning system almost impossible to operate; it also puts local planning authorities in an impossible position in trying to reconcile their voters' wishes with government requirements

Recommendations

Government should give more obvious political support to local planning authorities, of whatever political complexion, which take unpopular decisions in order to get more houses built in areas of shortage.

A more radical solution would be for government to set up Housing Planning and Development Corporations, responsible to itself, to carry out planning functions for the areas where housing shortages are worst and house prices are at their highest.

Either a stronger formal regional development policy should be introduced, or the government should stop pumping money into the most prosperous areas. It often provides this money in the guise of stimulating research and development and a knowledge-based economy, or some such.

Income from letting out rented property should be taxed as a trading rather than an investment activity.

Either stamp duty should be increased further on sales of residential property or capital gains tax on house sales should be phased in. Further increases in council tax might be considered, possibly supplemented by an ad valorem annual levy on market value for properties in the top band for council tax. Alternatively, a tax could be introduced on the outstanding amount of mortgage debt plus any other debts secured on the value of the house, above a certain threshold. I suggest these measures because house purchase, particularly for owner-occupation, is still too attractive compared to other forms of investment almost irrespective of price. The artificially high house prices caused by restrictions on development increase this attractiveness unnecessarily, causing a great deal of harm.

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Appendix: Comments on the Barker Review by Peter F Smith

My comments are mainly concerned with areas of Britain which suffer the worst problems of high prices of housing and building land. This is particularly the case in the western half of the Home Counties, the great arc stretching from Brighton to Milton Keynes, including the south-western and north-western areas of Greater London.

Issue 1 –Land Constraints

The main difficulty with supply of land in the areas where new houses are most needed is the shortage of land allocated by planning authorities. This is partly due to the general “nimby” attitude of the general public which results in constant pressure on local government to refuse or delay almost all proposals for housing development. The ambiguous attitude of central government and the further resultant delays when development proposals are referred to planning inspectors, etc, cause more problems. As a result, supply lags well behind demand at best and is always inadequate.

Any problems with brownfield land assembly are not relevant here; the problem is that most brownfield land is not in the areas of high housing demand – it is in old industrial areas with low house prices and high unemployment. In these areas, brownfield land development for housing as part of regeneration is usually good: apart from increasing housing supply directly it will improve the neighbourhood and save nearby older houses from becoming run down, unsaleable and eventually uninhabitable.

Issue 2 – Industry Constraints

Shortages of skilled workers can be addressed by paying the market rate of wages needed to attract such workers in sufficient numbers. If the cost of building land can be brought down, this would allow higher wages to be paid. Labour in the building industry has a generally lower expectation of job security than in most other industries. This reduces the disadvantages of offering high wages.

There is not much of a problem with availability of brownfield land for building, where it exists at all. The high price of housing land, a generally bad side-effect of the high price of houses, is beneficial in this respect since it provides strong incentives for developers to undertake the expensive tasks needed for converting brownfield land – removal of contaminated soil, demolition of existing buildings, special groundwork and landscaping, etc.

The attractiveness of redeveloping brownfield land for housing where it is in short supply has bad side-effects for other types of development. Commercial operations, particularly small businesses, which need the sites but cannot afford high rents, are squeezed out by the greater financial attractiveness of housing developments. When planning authorities try to be more generous in reserving sites for businesses they risk having decisions overturned on appeal in favour of housing development; this happens in order to allow property owners/developers to get the best price for their property.

Alternative manufacturing/construction methods need encouragement and development, but are not very relevant to the main problem in the short and medium term.

Issue 3 – Policy environment

There is again too much emphasis on brownfield land, which is not very relevant for the reasons set out above under issue 1.

The different tax treatment of new build homes as against conversion of existing housing stock has various bad effects, e.g. on the preservation of listed buildings and in some run-down areas, but is not relevant to the main problem of supply and demand for housing.

There is a problem in the tax treatment of returns to landlords from letting houses. Renting out residential property, by commercial landlords at least, is treated for tax purposes as investment rather than a trading activity, making it comparatively unattractive. This needs attention.

There are substantial considerations inhibiting private householders from putting existing houses on the market even when they no longer need those particular houses. Despite the changes of the 1990s in the rates of stamp duty and the responsibility for payment, and in the tax treatment of mortgage interest, house purchase for owner-occupation is still a much more attractive investment than most others; there is normally no capital gains tax payable on the proceeds of house sales, and the rates of stamp duty are still not high enough to be a reasonable substitute. The prospect of long-term capital gain and the wish to enjoy the benefits of major and minor house improvements, etc are a few of the benefits of hanging on to property.

For example, there are substantial incentives e.g. for an affluent young couple working from home, or a retired couple, with no children living at home, to hang on to a large house near good schools and with good commuting links. To do so enhances their long-term prospect of further tax-free capital appreciation in the market value of the house brought by facilities which they do not use and which are often provided at public expense. They also avoid the disruption of their personal lives involved in moving house. They enjoy the use of a substantial asset which they can further tailor to their tastes and needs; they can monitor its condition, its need for maintenance and any changes in its market value in a way offered by few other investment opportunities. They can borrow money at attractive interest rates against the equity in their house.

These considerations tend to limit further the response of housing supply in the short and medium term to increased demand as manifested in increased prices.

Government should consider: further substantial increases in stamp duty; phasing in capital gains tax on owner-occupied housing; an annual levy on the value of the most expensive houses; or a levy on outstanding mortgage or other debt secured on the value of the property. None of these are mutually exclusive

Issue 4 –Social housing and the rental sector

The generally high prices of houses means inevitably that the most serious effects are felt near the bottom end of the market. No other explanation is needed for most of the shortages of affordable housing for owner-occupation.

The shortage of housing for rent is governed by the same factors, plus the unfavourable tax treatment of returns to landlords from letting houses and flats, as mentioned under issue 3, above.

The emphasis needs to be on keeping down rents and purchase prices of housing in the open market. This would reduce both the need for social housing and the size of any subsidies needed. This is not a proposal for restricting the supply of social housing.

There has been one welcome change in recent years: the Government's initiative in stimulating the buy-to-let market has met with considerable response. The changes this has brought are useful but will not be on the scale needed.

General comments

My attention was drawn to the Barker review by an item on the page 4 of the "Financial Times" for Friday 18th July, headed "Economist to count the cost of nimbyism". It covered an interview with Kate Barker and among other things quoted her as saying that she had not realised the strength of nimbyism until she began the review. She went on to say that if resistance to new housing were very strong. "it may not be the planning system itself that is at fault if local authorities face a very large volume of resistance from the voters". This suggestion is exactly right. Much nimbyism comes not just from affluent professionals but from a lot of ordinary people: housing development, even on the few brownfield sites in areas where property prices are highest, attracts a great deal of hostility from almost all sections of the population.

The local planning authorities are in a difficult position. Irrespective of their own or the voters' preferences, they are obliged to find sites for large numbers of new houses which will be unpopular with voters almost wherever they are put. The authorities inevitably become unpopular, particularly as many voters feel much more strongly about the need for local control of development planning than of, say, education or the social services. This discredits local democracy.

The mere fact that a particular development is unpopular is not a good reason for refusing planning permission. The problem is particularly acute in villages and small market towns, and this has been encouraged by the government: our local councils are forced by central government guidelines to rule out significant housing development in villages. Public expectations in the villages are that this policy must be followed, that the green belts and the "character" of the villages are sacrosanct. It is primarily up to central government to change these expectations. The problem is aggravated in counties such as mine because villages and small towns have at least half the population, and much more of the open land suitable for development.

Suggestions not covered elsewhere in this Appendix

The Government should set up Housing Planning and Development Corporations to carry out planning functions for the areas where housing shortages are worst and house prices are at their highest. These corporations would carry out planning functions there and would designate land for development. They would be required to consult extensively with the local authorities but the responsibility for decisions about major housing developments etc would rest with the corporations on behalf of central government. When the New Towns were being developed after World War II, development corporations were set up to take such decisions. It was recognised even then that elected local authorities would find it difficult to do the job with vigour when this was likely to be unpopular with their electors. Nimbyism has grown very much stronger since those days, greatly increasing the justification for some such solution.

The government must grasp the nettle and remind local communities that their council's authority to refuse planning permission for development is a privilege and not a right. Village communities can reasonably be told that if they want to retain local services, they could help themselves by allowing their populations to grow by encouraging more house-building. In particular, it is not reasonable that they should retain publicly-funded services such as schools, doctors' surgeries, specially-subsidised public transport, etc, if lack of demand makes these excessively expensive.