

Green, pleasant and affordable

Why we need a new approach to
supply and demand to solve Britain's
housing problem

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About Onward

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Many thanks to all those who have contributed ideas and data to this paper. This paper reflects the thoughts, views and recommendations of the authors and does not necessarily reflect those of Onward's advisory board or network of supporters.

Summary of the argument

For too long, the housing debate has been dogged by false choices.

As prices and rents have increased over the years, and as ownership has declined, we have heard endless bogus arguments.

Some say that we must choose between Britain's landscapes and new housing. The only way to deliver enough homes, they argue, is to radically expand land supply by abolishing the Green Belt and overruling local opposition to development.

On the other side of the debate some say that Britain has enough homes already. That the law of supply and demand doesn't apply to housing – and there's no connection between how little Britain builds compared to other countries, and the fact that house prices have risen faster here than in any other developed country.

This paper argues that there is another way to deliver the homes that Britain badly needs and help more people to achieve their ambition to own their own home.

First, we must tackle the root causes of under-supply. Rather than a doomed plan to steamroller local opposition, we should address the reasons why so many people oppose local development under our current system.

Today, too many homes are built in exactly the places which maximise public opposition, tacked onto the edges of existing settlements, or else crammed next to existing houses. Too many homes come without the supporting infrastructure that is needed; and too often development is approved without any benefits for existing residents. The planning process is adversarial and felt to be unfairly tilted towards developers by ordinary people who engage with it, and four out of five people say they would like to see more local control over what is built. At the same time, because we maximise opposition, we don't deliver enough housing.

We need to move from a passive planning system, led by developers, to an active planning system of the kind common in Europe, the Asian tiger economies and the US, where local government takes a leading role in assembling land for development and creating planned new communities with proper infrastructure. Where Britain has created new planned communities in the past, like Milton Keynes or London's Docklands, they are among the most successful parts of our economy.

As part of this new approach we must capture for the community the huge profits that are made at the stroke of a planners pen. At present, over £9 billion a year of planning gains, three quarters of the total, are accruing to landowners and developers rather than the community. The experience of other countries suggests that we could capture billions more of this value each year to invest in better-looking developments, properly planned infrastructure and more community benefits. Central government and councils should be enabled to borrow to buy land and prepare it for builders so that they can capture more of the gains from development for the community.

Second, we need to build in the right places and discourage it in the places where it garners the most local opposition.

In cities, where support and demand for new housing is strongest, this means revising up our expectations of housing needed to meet demand, and making it easier for people to build upwards. It means providing cities with new powers – including over compulsory purchase and public transport – to enable the creation of denser, master-planned neighbourhoods in urban areas.

Outside cities, it means shifting away from piecemeal extension of existing towns and villages; giving councils the borrowing power to buy land, in order to create new towns and villages where infrastructure can be properly planned for; and ending incentives for landowners to sit on land as it appreciates.

For the country as a whole, it means further action to rebalance the economy, including by redistributing capital spending away from excessive concentration on London to support growth elsewhere. It means devolving power – so that we don't combine an overheating, overcrowding South East with wasted assets and opportunities in poorer areas.

Third, we must address the elephant in the room – that limited housing stock is too often used as a speculative or investment asset rather than a home. The private rented sector plays an important role in providing flexible accommodation. In the 1970s we had too little rented property. However, Britain's rented sector is now bigger than all but 3 of the 28 EU countries. Increasing the supply of new housing on its own will not be enough to reverse falling home ownership unless new homes go to first-time buyers instead of investors. We cannot continue to incentivise the growth of buy-to-let and private rented sector in the way that we do now.

That means reforming property taxes, on a grandfathered basis, to limit further demand for housing and land as speculative assets. It means diverting new housing supply to owner occupation, and steering investment towards more productive assets. It requires taking steps to tighten the focus of tax reliefs, including ending loopholes within the Capital Gains Tax (CGT) exemption for the primary residence and reforming mortgage interest relief for landlords. In areas where affordability is worst, we should enable councils to take measures to limit overseas purchases of new homes.

Finally, we must support the generation whose chances of owning a property are currently slim and whose expectations are non-existent, by giving them a chance to own. To do this, this paper proposes a major new initiative: Homes for Younger People (HYP).

We propose building half a million Homes for Younger People, with rents 10–20% below the market price to help people get off the treadmill of renting, and onto the housing ladder. At the same time, we recommend offering half a million HYP Loans to help those who can afford a mortgage but can't save a deposit.

It is commonplace for politicians to say that the housing market in Britain is broken. It is. In fact, so is our whole public debate around housing.

Contrary to popular belief, it is possible to deliver the housing that Britain needs. Look at continental Europe. We see denser, more liveable cities with better public transport and infrastructure. We see great places to live, but much more being built. It shows us that it's not only achievable to build in places and ways that people are willing to accept – it's *essential*.

In Britain, a generation are being denied the chances to get a home which older people took for granted. At the same time, we are building too much that is ugly, losing too many of the green spaces that people value the most, and stoking opposition to development. The solution to one problem is the solution to the other.

Ten key recommendations

Part one

A new approach to improving housing supply

The problems that create opposition to development and limit supply	Recommendation
<p>We build in the wrong places</p> <p>Homes come without the infrastructure that is needed</p>	<ol style="list-style-type: none"> 1. Move away from piecemeal, sequential development tacked onto existing villages and towns. Give councils new Compulsory Purchase Order (CPO) powers and borrowing capacity so they can buy land and put more development into planned new villages, towns and cities. Require councils to plan infrastructure on the basis of cumulative impacts, not just individual applications. 2. Tilt policy towards building more in our cities. Revise up housing need figures for the centres for our cities and give cities new powers, including over transport, to enable densification. Extend the powers and resources of Homes England as a regeneration agency, including to support town centre regeneration. Liberalise rules on building upward. Support the growth of other parts of the economy by rebalancing capital spending away from London. 3. Central government should play a direct role: creating a new generation of garden cities, supporting more integrated planning for transport and housing, and merging the Department for Transport with the housing and planning functions of the Ministry of Housing, Communities and Local Government.
<p>We do not capture the benefits of development for the community</p>	<ol style="list-style-type: none"> 4. Give councils borrowing power to buy land and grant themselves planning permission, to enable councils to capture more of the gains from development. Reform the 1961 Land Compensation Act to clarify that local and central government can purchase land at current market use values, not inflated or speculative “hope” values. Reform Section 106 to relax constraints on what councils can charge.
<p>There are no real benefits for existing residents</p>	<ol style="list-style-type: none"> 5. Abolish central government controls which direct how Section 106 receipts are spent. Revise guidance so that more of captured planning gains can be spent on initiatives of direct benefit to existing residents – landscaping, payments for disruption for neighbours, and new community facilities. Build discounted housing with priority for young people with families in the immediate vicinity of development. Prioritise these neighbourhood benefits rather than social housing or other initiatives aimed at the local authority as a whole.

A broken development model creates a vicious circle of opposition and rising prices	6. Boost competition to end the UK's broken model of development and the dominance of vertically integrated 'developers' who focus on land assembly. Bring small builders back into the market by requiring some plots on all large new sites to be available to SME builders. Require all options on land to be centrally registered to be valid, revealing who controls what land.
The development process is not felt to be fair	7. Create incentives to plan for the long term. Where councils are meeting the new Delivery Test, give them more powers to control development, including making views and landscapes enjoyed by existing residents a legally-allowed planning consideration for the first time. Create a category of 'Outstanding' local authorities with adopted long-term (10–15 year) plans and make these authorities exempt from rulings from the Planning Inspectorate as long as they continue to meet their plans. Reboot neighbourhood plans by making them more powerful and quicker to create. Prevent developers pre-empting plans by giving more legal weight to emerging plans.

Part two

Increasing home ownership by redirecting demand away from housing as an investment asset – and towards more productive assets

The problems that have pushed down home ownership	Recommendation
Rising demand for housing as an investment asset (to rent out) has increased prices and pushed down home ownership. Subsidies for home ownership need to be more tightly targeted to avoid stoking investment demand and unintentionally reducing ownership	8. Reform property taxation to limit demand for housing and land as speculative assets. Divert new housing supply to owner occupation. Cut other taxes to encourage investment into businesses and more productive assets. On a grandfathered basis, end loopholes within the Capital Gains Tax (CGT) exemption for the primary residence and reform mortgage interest relief for landlords. In areas where affordability is worst, give councils powers to limit overseas purchases of new homes.
Sustained high house price inflation over decades has created self-fulfilling high inflation expectations, driving investment demand	9. Reset inflation expectations by setting a long-term target to increase affordability, backed up by a new taskforce between HM Treasury and the Bank of England with explicit powers to dampen price inflation.
Interventions since the credit crisis have not been enough to offset the reduction in the availability and quality of lending to first-time buyers. Supply and investment demand reduction measures are likely to take time to be effective	10. Create Homes for Younger People (HYP) – a programme to help one million younger households over the next decade – half by helping with deposits for 500,000 new build homes, half by building 500,000 new discounted rental properties for young working people. Fund it through capturing more planning gain and by transferring the remaining local authority housing stock to housing associations.

The challenge

A summary of the problems in the housing market, and the role of supply and demand

This section first describes the symptoms of our housing problem, which manifests itself in falling homeownership, and higher prices and rents.

It goes on to explore the role of supply constraints and rising demand in explaining these problems.

Describing the symptoms of our housing problem

1. Home ownership has been falling, and is below rates seen in most of Europe.

- Throughout the 20th Century, home ownership steadily increased, from 23% in 1918¹ up to 71% of households in England in 2003. But since then it has steadily declined, down to 63% today.² This is despite the fact that 86% of people prefer home ownership over renting.³
- While Britain is still sometimes presented as a “nation of homeowners” in the press, in 2016 only three of the 28 EU member states had lower rates of homeownership than Britain.⁴ By contrast, 10 member states enjoyed rates of over 80% homeownership.
- The fall in homeownership rates and the rise in private renting is seen across every region, all ethnic groups and both UK and non-UK born people.⁵ (See annex for details.)
- The decline in homeownership reflects rising prices rather than a shift in preferences. A full 65% of 18–40-year-olds who currently do not own a home hope to do so one day.⁶

2. Property prices have increased relative to incomes.

- Since 1998, the ratio of average house prices to average incomes has doubled – from 3.5 to 7.⁷
- In the 1980s and until the late 1990s, the average 30-year-old could afford a deposit for a home if they saved for three or four years. Now they would have to save for nearly 20 years.⁸
- To get a sense of the scale of the increase: if inflation for consumer goods had been as fast as house price inflation since 1970, a supermarket chicken would now cost over £60.⁹
- For those who can afford a house, low interest rates mean mortgage payments are more affordable and a smaller share of incomes than in previous decades.¹⁰

3. Rents have increased relative to incomes, even as the number of renters has grown rapidly.

- Those locked out of ownership face higher rents. New analysis by the House of Commons Library included in this paper suggests that from the 1960s to the early 1980s private renters spent on average around 10% of their income on rent in most of the country, and around 15% in London. Today those figures have increased to over 30% and nearly 40% respectively.
- At the same time the proportion of households in Britain who are private renters has doubled since 2002, meaning that more people are paying higher rents.¹¹
- National averages conceal more extreme changes in some parts of the country. Rents in London and the South East, for instance, have risen by 36% since 2007 alone. Dramatic price increases have made it more difficult to move to London and other high productivity parts of the UK, potentially limiting productivity growth.
- Rent and price increases seem to have happened at different times, with a significant increase in the ratio of rents to incomes in the 1980s and 1990s, and a major uplift in prices since then.

Figure 1: Housing costs as % of net income: private renters¹²

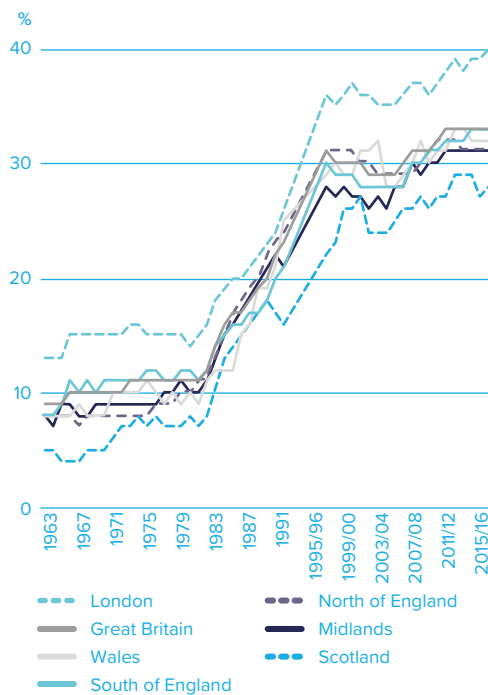
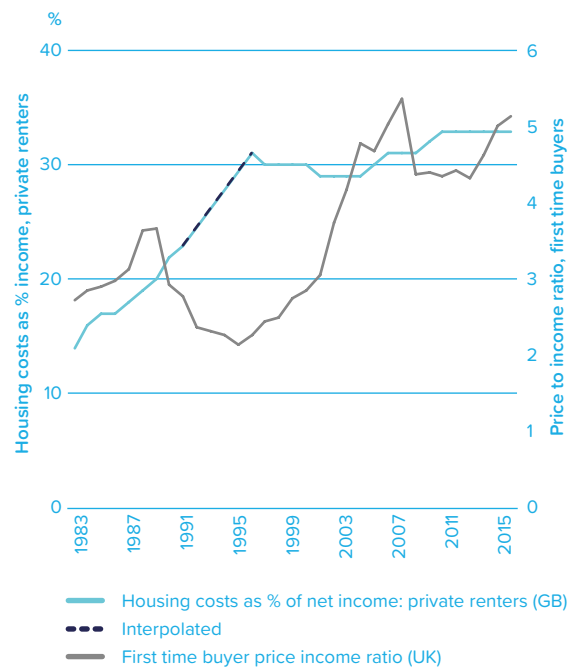


Figure 2: Rental costs and prices relative to incomes¹³



4. Younger generations are less likely to own, while older people are more likely to own.

- While ownership has declined overall, for older groups it has continued to increase, meaning that falling average ownership rates conceal a more dramatic fall for younger people.
- Over just the past 10 years, the proportion of all 16–34-year-olds owning their own home fell from roughly half to a third. The fall in ownership was most concentrated amongst mid-income people aged 25–34, for whom ownership rates have been slashed from 65% in 1996 to 27% in 2016. Meanwhile home ownership among over-65s continued to increase over the past 10 years, defying the overall decline.¹⁴

- Baby boomers were 50% more likely to own their own home at the age of 30 than millennials (born 1981–2000).¹⁵
- While the discussion about falling homeownership has been gathering pace in recent years, for younger people and people in more expensive areas the problem is in fact not new. Homeownership rates among 25–34-year-olds have been falling since 1989, and are lower than at any time since records began in 1961. Ownership rates for 35–44-year-olds are back to where they were in 1971.¹⁶

Figure 3: Owner occupation by age¹⁷

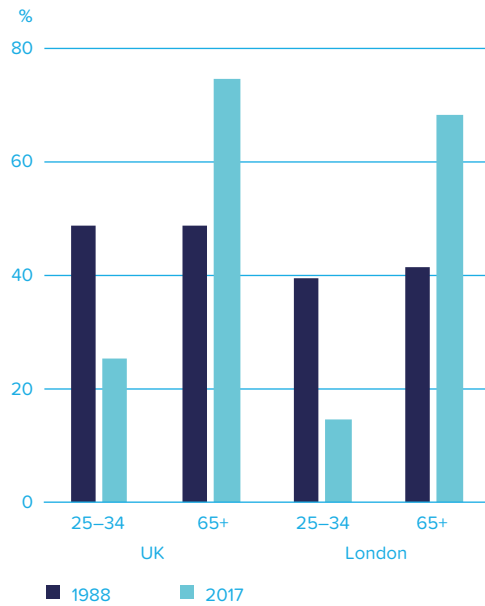


Figure 4: Owner occupation by age¹⁸

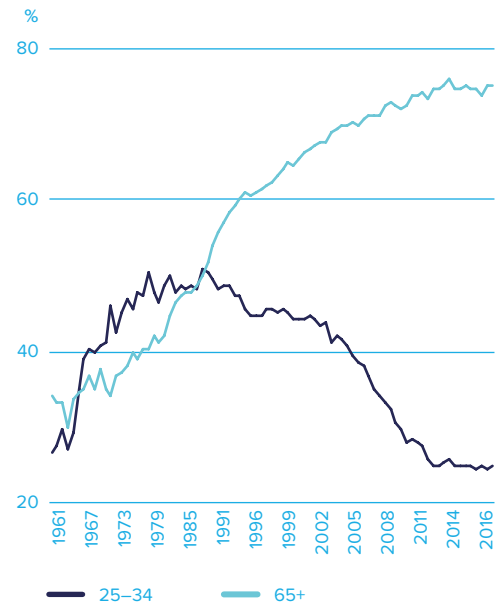


Figure 5: Homeownership rates by age group¹⁹

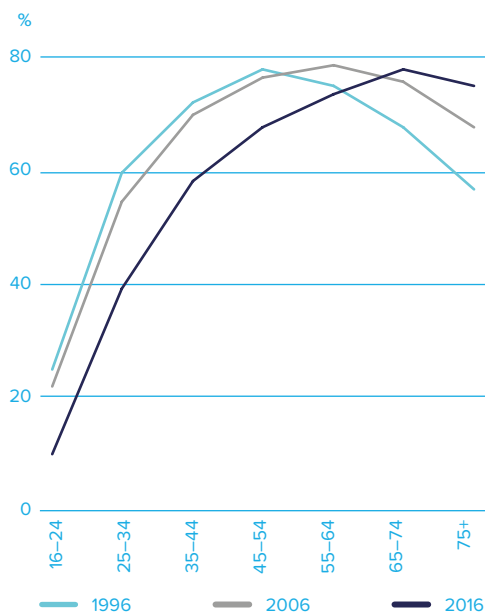
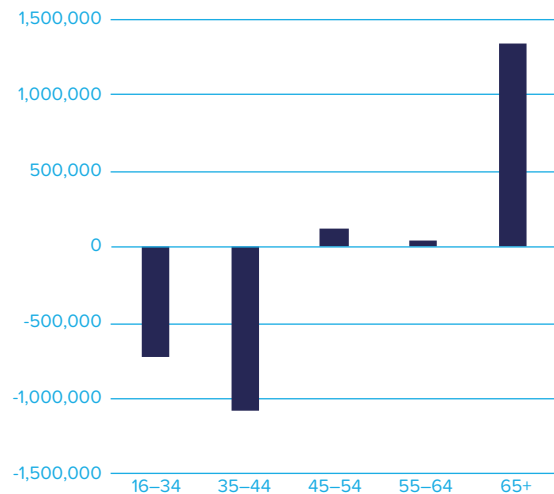


Figure 6: Change in owner occupying households by age group 2006–2016²⁰



5. There has been a sharp rise in the number of people owning multiple properties. First-time buyers increasingly rely on help from property-owning parents.

- Analysis of the British Household Panel Study by the Resolution Foundation shows that the number of people with multiple properties rose by 1.6 million to 5.2 million between 2000 and 2014 – a 30% increase in the proportion of adults who owned more than one home.²¹
- Rising land and property prices have benefited owners of land and property at the expense of non-owners. Even outside London, first-time buyers increasingly rely on parental help: the proportion with parental help in the rest of England increased from 20% to 35% between 2010 and 2014.²²

What roles do restricted supply and investment demand play in our housing problem?

1. The supply of housing and land matters over the longer term. Britain has built proportionately less new housing than other countries, and seen bigger price increases as a result.

- There are few people who seriously argue that the supply of new homes does not make any long run difference to the price of homes for sale or the cost of rent. It would be odd if houses were the one good for which the law of supply and demand did not apply.
- It is true that demand and the economic cycle have a big impact on the land and house price measured at any particular moment. As Ian Mulheirn has argued, the decline in real interest rates and globalisation are likely to have driven prices up internationally since the turn of the century. It is also true that the relationship between supply and rents and prices varies over the economic cycle. The impact of supply restrictions is much clearer over the long-term.
- The Barker Review estimated that a major increase – a doubling of the supply rate of new housing – would more than halve the rate of house price growth, reducing it to the European average.
- This finding continues to look correct. For example, France has a similar-sized population and in the long run France's economy has been growing at similar rates to Britain. But over the long-term, France has built roughly twice as many new homes each year as Britain.²³ This is surely one reason why real house price growth in France since 1970 has been roughly half that in Britain,²⁴ and the proportion of people who spend more than 40% of their income on housing is twice as high in Britain as it is in France.²⁵
- Between 1970 and 2015, France built about 7.8 million more homes than the UK. That difference in building is equivalent to every home in Greater London, Scotland and Wales put together.²⁶
- Part of the explanation for increasing real housing costs are factors which have affected all developed countries – globalisation, declines in global interest rates, and financial liberalisation have all increased demand. But these common factors alone cannot explain why some countries have experienced much more severe increases in costs.

- The UK saw the largest growth in real house prices of any OECD country between 1970 and 2016. This is hard to explain if we only look at the impact of financial liberalisation, globalisation or lower global interest rates.
- Compared to other countries, Britain has poorly performed in terms of supply over the long-term – looking at the growth in the number of homes between 1990 and 2010, Britain ranked 24th out of 28 OECD members with data.

Figure 7: Stock of housing²⁷

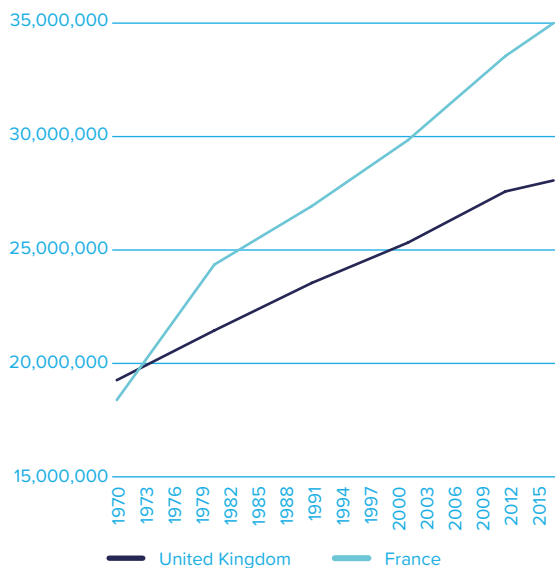
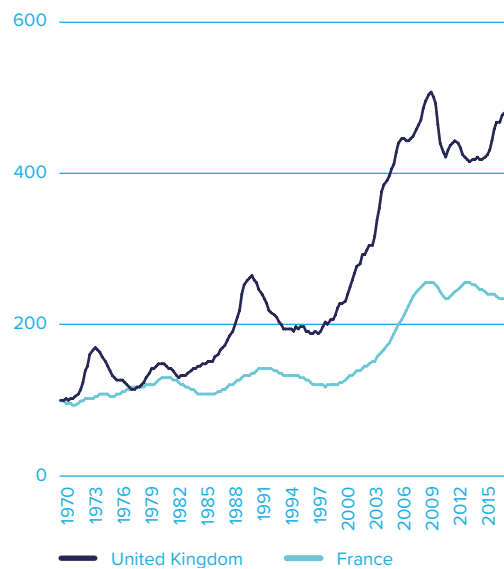


Figure 8: Real house price growth²⁸



If we look at three economies with similar economic growth rates, similar population growth rates but different housing supply rates we can get a sense of the impact that supply makes over the long-term.

Table 1: The impact of supply in three comparable countries

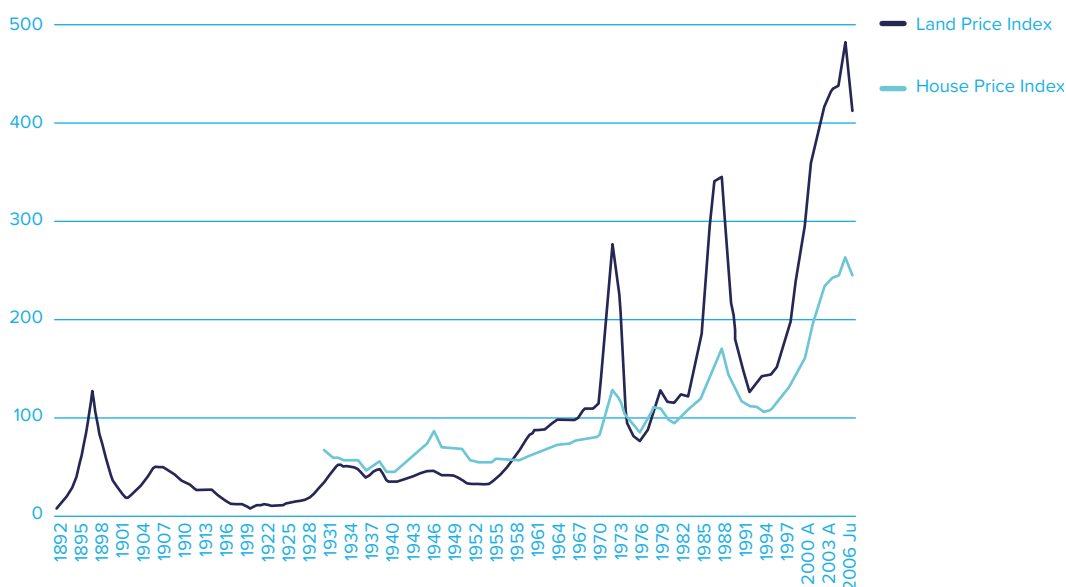
Change 1970–2015	France	Netherlands	United Kingdom
GDP growth per year	2.3%	2.4%	2.3%
Population growth per year	0.5%	0.6%	0.4%
Growth in housing stock	91%	100%	46%
Growth in housing stock	16.7m	3.8m	8.9m
Real house price increase	232%	240%	480%

2. Rising land prices and the restricted supply of land for housing explain the rising costs of housing.

- Most of the cost of a new home stems from the cost of the land it sits on. Data from the ONS suggests that the proportion the cost of a home in England and Wales accounted for by the land underneath it increased from around 50% in 1995 to 70% in 2016.²⁹ Looking over the longer term, one international study suggests that three quarters (74%) of the increase in the cost of housing in Britain between 1950 and 2012 is accounted for by increases in the cost of land.³⁰

- House prices have been driven upwards by a long-run trend of rapidly increasing land prices. As well as increasing even faster than house prices, land prices have been more volatile and pro-cyclical. This has been a factor in destabilising the wider economy.
- It has also limited competition in the development industry, because only players with the deepest pockets have been able to survive during land price booms and busts. As a result, over the course of the last three decades there has been an 80% reduction in the number of small builders.³¹

Figure 9: Real land and house price indices (1975 = 100)³²



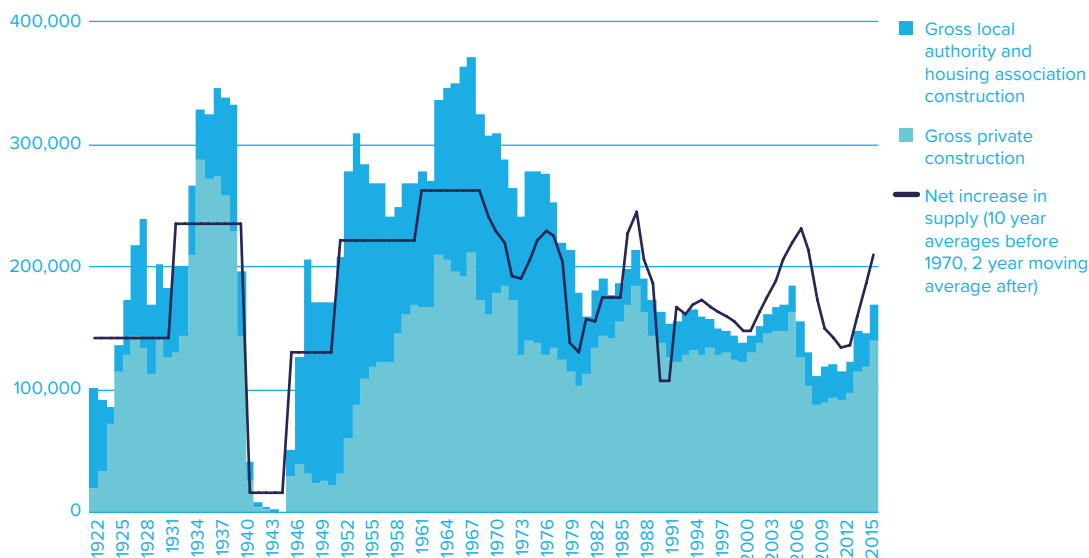
- If we could reduce the price of land coming forward over the long-term we could reduce the cost of housing. This is likely to involve measures to increase supply of cheaper land, measures to reduce demand and measures to reset expectations.

3. Social housing is important, but building more social housing is unlikely to increase the overall supply of new homes or reduce real prices significantly unless we improve the supply of land.

- Social housing is vital for many people. But it is not the case that the UK has unusually low numbers of people living in social housing. In fact, in 2016 Britain had a greater proportion of the population living in subsidised social housing than all but one of the 28 EU members.³³
- The gross number of homes built in Britain has declined sharply since the late 1960s. Papers on the housing crisis often include a graph demonstrating the fall in council housebuilding since the 1960s to argue that the UK can only return to higher rates of building overall if it returns to the mass construction of council housing.
- However, there have been other periods of rapid housing growth, such as the 1930s, during which the social sector played a relatively limited role. More importantly, looking at net supply is a more relevant measure than the gross number, as large numbers of the new homes built in the 1930s and 1960s were simply replacing other homes destroyed in slum clearance (so net supply was lower than construction). In recent years, growing conversions of existing buildings have taken net housing supply above new construction.

- Looking at net supply makes the change in housebuilding in Britain over time look less dramatic than looking at the gross supply. Arguably, the net growth of the housing stock has been relatively stable over the last century apart from the second world war, and the more dramatic change has really been its failure to keep up with faster population growth.

Figure 10: New construction and net additional housing³⁴



- Given the Government's limited budget, there are likely to be more effective ways to increase the amount of land coming forward than spending on traditional social housing. Initiatives like the Housing Infrastructure Fund, through which central government funds new transport and social infrastructure to enable developments which would otherwise be unviable, are likely to provide more additional housing for a given investment than increasing spend on social housing (See Annex on social housing). Enabling authorities to borrow to buy and then sell land would be more cost effective still.

4. Changes in demand are important, but cannot explain all of the growth in housing costs.

- Falling interest rates, financial liberalisation, globalisation and the growth in demand for housing as an investment asset have all added to demand and increased house prices. But these factors alone cannot explain the huge variation in house price growth and rental cost growth between different parts of Britain, which are more plausibly explained by the balance of supply and demand in different areas. If lower interest rates were the only cause of higher prices, we would not see huge variations in changes to price-to-income ratios around the country. Goods like cars or electrical products have not seen their real prices rise in response to lower interest rates, because their supply is not constrained in the same way as homes.
- Some authors claim that supply is outpacing the growth in the number of households, and that therefore supply cannot be a problem and only the demand side matters. But this argument is circular, as rising costs prevent people from forming new households. Just one visible example of this effect is the growth of young people living at home.

- Between 2000 and 2017, the number of 18–30-year-olds living in their parents’ home increased by about 1.1 million. This does not seem to be the result of increasing higher education and in fact the proportion of 22–26-year-olds living with parents has increased particularly sharply in recent years. Over the last decade (2007–2017), the proportion living with their parents increased from 32% to 40%. Young men are more likely to live with their parents – the proportion living in their parents’ home rose from 39% to 48% over the same period.³⁵
- Household formation rates and sizes clearly follow price changes. In 1997, London and the North East had roughly 2.4 people per household. Since then, the average North East household size has declined to below 2.2 per household while in London it increased to around 2.7 per household, as people cram together in the face of higher prices.
- As Professor Paul Cheshire at the London School of Economics has argued: “a shortage can only be usefully defined in terms of the balance of supply and demand. Basic economics is enough to give at least a hint that if prices are persistently rising in the long-term, as house prices have, supply is less than demand.”

5. Migration has added to demand, but only accounts for a part of the increase in prices and costs.

- Housing supply has not responded to a very large increase in population growth driven by net migration over recent years. The ratio of new housing added compared to the size of the population has continued its long-term decline, from around 5 new homes per 1,000 people a year in the 1950s to around 3 new homes per 1,000 people a year today. Recent years have seen population growth (driven largely by net migration) outpace housing supply by more than in any previous decade.

Figure 11: Increase in population and net increase in housing stock³⁶

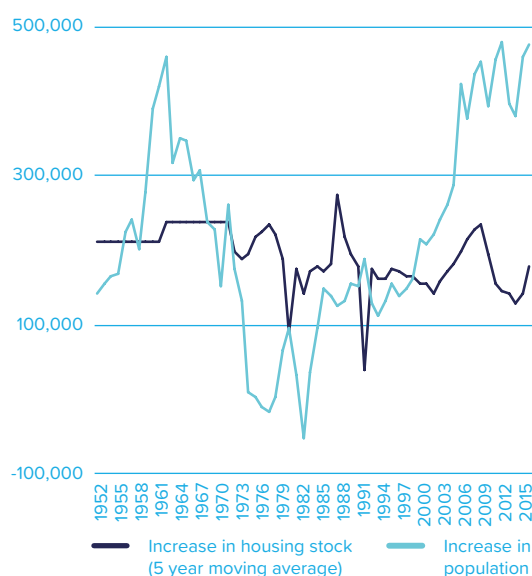
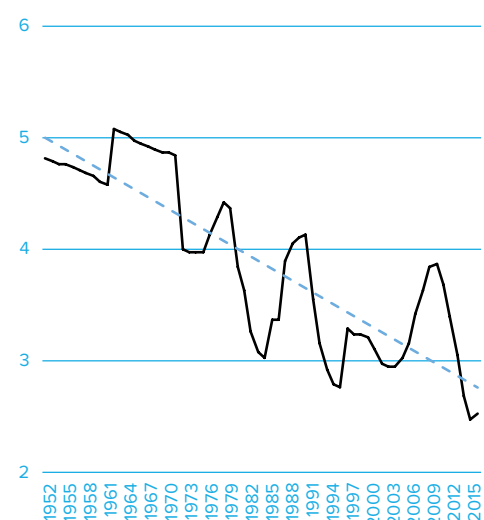


Figure 12: Net new homes per 1,000 population³⁷



- However, other factors including income growth, other population growth, lower interest rates and constrained supply all play a part too. A paper published by MHCLG in 2018 suggested that migration had added 21% to house prices over the period 1991–2016. However, the same paper noted that house prices had increased by 284% over the same period overall. This makes the effect of international migration simultaneously large in absolute terms but relatively small as a share of the overall increase in house prices.

6. No plausible increase in supply will be enough to reverse falling home ownership on its own without action to limit investment demand and the growth of the rented sector.

- The supply of homes is only one factor driving the homeownership rate. If Britain had built as many homes as France between 2000 and 2015 we could have built just under 2.4 million more homes – and we could have expected about 1.8 million more of them to have ended up being owner-occupied.
- Alternatively, if in Britain we had simply kept the ratio of privately rented to privately owned homes the same between 2000–2015, while building the same number of homes, we would have ended up with 2.2 million more homes in owner-occupation.
- Taking action to rebalance the shares of rented and owner-occupied properties might be harder or easier than boosting supply. But we are certainly more likely to succeed if we take action on both the supply and demand sides.
- Another way to get a sense of the scale of the challenge is to compare the growth of the housing stock and the growth of the rented sector. Over the last decade, CLG data shows that the number of privately-owned homes in England has grown by around 165,000 a year. But this has not led to an increase in owner occupation as it has been outweighed by growth in the number of homes in the private rented sector of around 195,000 a year.

Figure 13: Dwelling stock by tenure, England

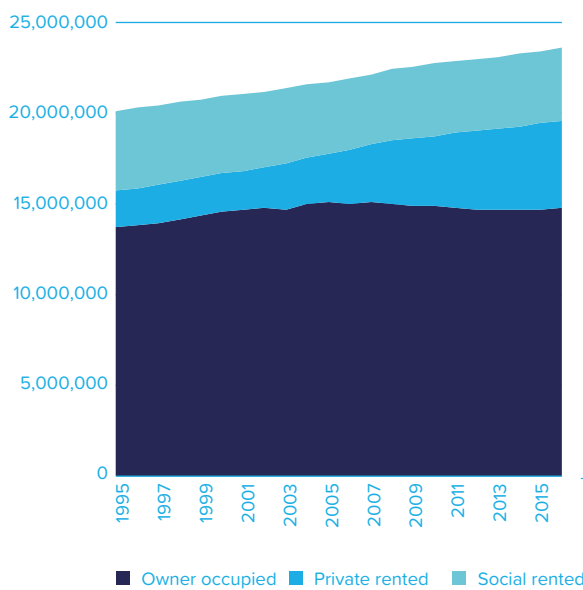
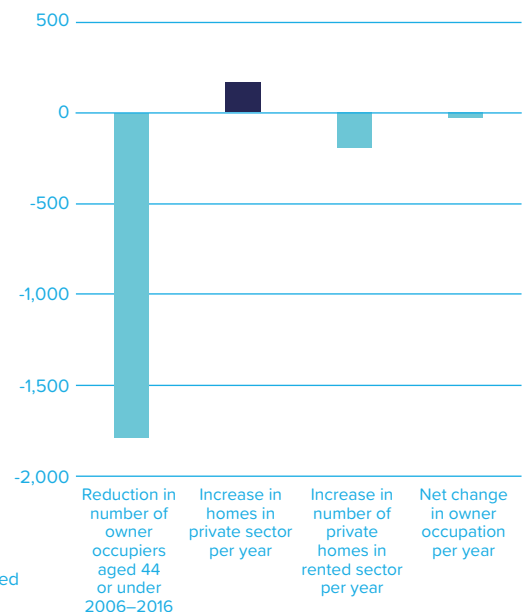


Figure 14: Housing tenure 2006–2016



- A really big increase in supply might tip the balance so that the number of owner-occupied homes might start to slowly grow, rather than slowly fall. If we could increase supply by a third, owner-occupation overall would grow by about 25,000 units a year, other things being equal.
- But if we compare this to the large reduction in the number of young owner-occupiers over the last decade – a fall of around 1.8 million – then even at this rate it would take about 70 years just to undo the fall in young owner-occupation we have seen in the last decade.
- We can only get a faster increase in owner-occupation if we also take measures to stop or slow the growth of the private rented sector which is displacing owner-occupation. No plausible increase in supply will be enough to reverse falling affordability and falling home ownership on its own.

Solutions: part one

A new approach to improving housing supply

Defining the problem

This section explains the underlying reasons why we are so likely to oppose new development under the current system, public opposition being the underlying constraint on building more. It explains why a purist libertarian approach is unlikely to succeed, and why we need a system rooted in public consent.

The underlying problems are:

1. We build homes in the wrong places
2. We fail to capture land value uplift for the community...
3. This means we build homes without the infrastructure that is needed...
4. And without significant benefits for existing residents
5. These problems are then compounded by a broken model of development which creates a vicious circle of opposition and rising land prices
6. And the system is not felt to be fair

Why we need a new approach to increasing supply, rooted in public consent

Since the early 1990s, increasing the supply of new homes has become an important policy goal for successive governments. While there has been progress, and supply has recovered following the 2008/9 recession, the current system will never deliver enough new housing to reverse falling ownership levels and rising housing costs.

Only around 6% of the UK is built on. The main limiting factor on increasing supply is not a simple lack of land but local opposition to building where homes are most wanted.

Academic analysts are right to point out that in the absence of planning controls like the green belts around our major cities, the private sector would supply far more housing. The market would operate as it did in the 1920s and 1930s when cities expanded dramatically. It is also true that the Green Belt has strayed far from its original limited policy intentions, and is having many perverse consequences, including pushing development up against existing homes.

However, no government in the decades since then has been minded to simply see the market 'let rip'. Our fears about sprawl, ribbon development and the loss of valued landscapes have ruled out this libertarian approach to solving the problem.

Any realistic approach to increasing supply must involve understanding and solving the root causes of local opposition. Of course, there are some ways in which we should move to a more liberal system. We might want to relax the height restrictions which stop London from growing upward or let the market turn more industrial and commercial space into housing.

But a crude libertarian approach will not succeed. New development often imposes real negative externalities and the current system fails to reduce or offset them. Countries that build more new homes are better at addressing these costs. There are six main problems we need to solve, each of which is linked.

The problem: why don't people want new homes?

1. Piecemeal and ugly development in the wrong places, driven by a passive system and a sequential approach to development.

First, new development is opposed because it is too often simply in the *wrong places*. It is too close to existing residents, has too much impact on a valued or expected view, it comes with minimal landscaping, or it suffers from low quality design.

Obviously, if new homes are right next to existing homes, without trees or any other landscaping to hide them, and if new development looks ugly and out of character, then existing residents are more likely to oppose them. In contrast, people are less likely to object to homes that are not in their line of sight, or hidden by landscaping and trees, or built to a high quality, in traditional local styles.

The local plan-making process in Britain, unlike much of Europe, is fundamentally passive and sequential.

It is *passive* because the local authority typically asks which landowners want to bring forward their land, typically allows sites that are proposed on the edges of existing settlements, and then plans around that. An alternative approach would start (in more rural areas), by thinking about where in the locality the development can happen and disturb fewer existing residents, and (in more urban areas) by thinking about which areas we want to regenerate.

It is *sequential* because the prevailing norm in Britain (reflected in planning guidance and practice) is dominated by adding to the edges of existing development. The alternative approach, based on creating planned new settlements, including villages, towns, garden cities, and urban extensions, requires government to play a role in master-planning. This is common in Europe but very rare in Britain.

Planned new settlements have multiple advantages over piecemeal, sequential development.

People are less likely to object to homes built in accordance with a plan which existed when they bought their own home: for example, no-one can really move to a planned new village and then object when new homes are built there.

When communities are planned, infrastructure can be planned properly too. For example, in a new city like Milton Keynes, no-one needs to live on a noisy arterial road. In many new towns and cities in Europe, trams, cycleways and super-efficient district heating schemes are plumbed in before any homes are built. These sorts of infrastructure cannot be bulldozed through a development if they are not implemented first.

In contrast, under the current model of sequential development, there is no cumulative impact assessment, so it is typical for existing infrastructure to become steadily overloaded and for problems to become intractable. For example, the oversubscribed village primary school would not have space to expand even if it had the money, or the road that has become a rat run is unable to be widened to make room for more traffic.

As discussed below, in a number of other European countries local governments play a far stronger role in assembling land for development and in creating new villages and settlements.

For many years, following the end of the New Towns programme and Docklands Development Corporations, Britain built no significant planned communities. There were a few inspirational exceptions, such as Prince Charles' creation of Poundbury, on the edge of Dorchester, but, in general, Britain basically stopped creating new places.

Now, as Britain's broken development model starts to become untenable, local authorities are increasingly looking to develop new planned communities to avoid the negative effects of sequential development.

In January 2017, the Government announced that it would work with local authorities to help create 14 new towns and villages in locations as diverse as Stratford-on-Avon, West Oxfordshire, East Northants, Mid Devon, Hampshire, Cornwall, Essex, Lincolnshire, Knowsley, Surrey Heath, Lancaster, Derbyshire, Cumbria, Cheshire East, Buckinghamshire, Somerset and Essex and Hertfordshire. Many more are being planned without central government support.

But even where bold and imaginative local authorities are trying to create new communities, they lack powers and leverage over developers.

A good example is Cranbrook, a new town in East Devon, where master-planning has been frustrated by the limits of local authority power. As the local MP, Sir Hugo Swire, explains:

I wanted Cranbrook to be an exemplar of towns around the world, but soon the developers moved in. I am afraid that the council is now having to move in to put in the town centre because the developers are behaving in a shameful way; they say that not enough people live there to put it in. It is a classic example of big developers gaming the system.

2. We fail to capture the benefits for the community...

At the root of Britain's broken development model is our failure to capture the gains from development for the community. At the stroke of a planner's pen on a successful planning application, agricultural land in England typically becomes 100 times more valuable – with even bigger gains in areas near cities and in the South East. In the South East, gaining permission for housing on just one hectare of land (roughly the size of a rugby pitch) generates an average £3.6 million in profit. No wonder a whole industry has been built around trying to privately capture this gain.

How much of this gain are we capturing for the community and how? Analysis by the Centre for Progressive Capitalism suggests that the total uplift in land values caused by the grant of planning permission for residential development alone was over £12 billion in 2015. However, the same analysis found that over £9 billion, or 75% of this gain, was not captured by the community but accrued to landowners and developers.³⁸

It is unlikely that any tax could ever capture every last penny of this planning-created gain. Indeed it might be sensible to leave incentive for landowners to bring land forward. Chris Philp MP has previously suggested aiming to capture around half of the uplift.³⁹ It is clear that more of this gain could be captured than at present.

Table 2: How much land is worth with different planning permissions⁴⁰

£ Land price per hectare	Agricultural use	Industrial use	Residential use	Gain from Agricultural to residential	Multiple of original value (x)
East	£24,000	£675,000	£2,600,000	£2,576,000	107
East Midlands	£23,000	£450,000	£1,100,000	£1,077,000	47
London	–	£2,733,000	£29,100,000	–	–
North East	£16,000	£180,000	£1,000,000	£984,000	62
North West	£22,000	£400,000	£1,400,000	£1,378,000	63
South East	£22,000	£1,100,000	£3,600,000	£3,578,000	163
South West	£21,000	£430,000	£2,000,000	£1,979,000	94
West Midlands	£24,000	£500,000	£1,500,000	£1,476,000	62
Yorkshire and the Humber	£21,000	£375,000	£1,400,000	£1,379,000	66
England (mean)	£21,000	–	–	–	–
England excluding London (mean)	–	£514,000	£2,100,000	£2,100,000	100
England including London (mean)	–	£760,000	£6,900,000	–	–

Source: DCLG, Land value estimates for policy appraisal, December 2015.

An analysis for the Ministry of Housing, Communities and Local Government found that local councils raised £5.1 billion in 2016/17 from Section 106 contributions on residential and other developments. Of this, £4 billion was in the form of new affordable housing. Through the Community Infrastructure Levy a further £900 million was raised.⁴¹

To help small builders and cut bureaucracy, the smallest developments are exempt from Section 106 charges. But, perhaps surprisingly, even on some of the largest residential developments no Community Infrastructure Levy (CIL) or Section 106 contributions are being charged. A full 7% of developments of over 1,000 homes had no Section 106 or CIL charged. For developments of between 100 and 999 homes, 26% paid neither of these charges.

Other countries do a better job of capturing the gains that occur from uplift in land values when permission is granted. For example, the Netherlands manage to capture around 90% of the gains in some cases.⁴²

There are a number of reasons why the combination of Section 106, the CIL and other UK mechanisms capture so little value: only 133 of 339 councils have a CIL, which anyway competes with and displaces Section 106 revenues. At the same time, Section 106 is limited in scope in a number of important ways. For example, local authorities cannot ask for sums which are not directly related to the development in question, and local authorities have little information on developers' costs and so are vulnerable to developers saying charges will make their development unviable.

As this paper will argue, the community is more likely to capture the gains from land value uplift where government owns or controls the land until homes are sold.

3. ... and so new housing comes without the infrastructure that is needed...

A second reason development is often opposed, is that it almost always comes without the required *infrastructure*. While this is sometimes used as an excuse by those opposed to development for other reasons, it is also a real reason why people oppose development. They are worried about the clogging up of local roads, or increased difficulty of securing parking places, appointments at the local GP, or places at the local school.

The fundamental reasons for this are that local authorities are not able to capture enough of the “planning gain”. But there are other factors at play. Some planning policies, for example, aim to encourage the use of public transport by not providing adequate parking places. But this often has spillover effects for other nearby residents.

After the move to a “plan-led” system in 1990, in two-tier areas the planning decisions were devolved to the district tier. But control over highways, transport, lighting etc remains at the county level. This means that districts may be unable to persuade their county to invest in a new strategic piece of infrastructure, such as a new road or junction, which would enable better development.

4. ... and there are no real benefits for existing residents and neighbours.

A third reason why development is opposed is that, while new development will always have some negative externalities for existing residents, at present new development brings no significant *positive benefits* for existing nearby residents who face the loss of views or congestion of roads and congestion of local services. Through Section 106, councils can secure some contributions from developers, which are used to pay for everything from a new road to connect the new development to additional social housing built on the site. But far too little value is captured from the development process – only about a quarter of the value created when planning permission is granted. This means that benefits are minimal overall. And too few of the benefits flow to those most affected. New social housing may or may not be welcome. But what’s clear is that it often doesn’t benefit neighbouring existing residents directly.

Each of these three causes of opposition have to be addressed. But one thing that would help us address all three is money. If we could capture and generate more benefits from development we could choose to spend some of it on better landscaping, new areas of woodland, and prettier houses with more open space. We could spend some on more classrooms; and more parking spaces. And we could spend some on side benefits for existing residents – for example, homes for discounted sale to the children of existing residents neighbouring the new development.

5. A broken model of development creates a vicious circle of opposition and rising prices.

Our planning system both fails to capture land uplift and stokes opposition for the reasons above, which has made land for development scarce.

Ironically, the shortage of land for development and the rising costs land creates a further vicious circle. High land costs mean that developers aim for higher densities and uglier designs. If you find it difficult and expensive to acquire development land,

you then try to cram in as many homes as possible when you do acquire it. The rising proportion of a home that is accounted for by the land underneath means that the cost of land pushes out quality design and green space.

In most of Europe, housebuilders are contractors. Someone, typically local government, has assembled land and perhaps built serviced plots with services and infrastructure installed. The housebuilder just builds your house. In Britain, developers integrate building and land assembly and they make their margins not from being efficient at building beautiful houses, but by being good at navigating our complex and opaque planning system.

Scarcity has created a huge uplift in land values when permission is granted. That in turn has created a development sector focused on privately capturing land uplift, pushing through development through lawfare, squeezing down costs and pushing up density, and on limiting supply to stop prices from falling on sites they have acquired – rather than building beautiful new communities. Capturing the gains from development for the community would not just be of direct benefit – it would also “take away the punch bowl” and end the incentives for developers to behave in this way.

As well as intensifying opposition and scarcity, Britain’s model also creates high and volatile land prices. Scarce land is bid up in price and won by whoever thinks they can push down Section 106 and other costs the most.

In the face of constrained supply, changes in demand mean massive swings in land prices. These, in turn, mean only firms with the deepest pockets can stay solvent, which is why 80% of small builders have been pushed out of the market since the late 1980s. This, in turn, reduces competition, which enables developers to pay ever higher land prices and benefits landowners. And so the cycle turns.

Instead of hoping to make developers behave differently without changing the system, we need to start by changing the system to address the underlying problem.

To give British developers their due, they are the products of our system. Because planning and Section 106 negotiations are uncertain compared to other countries, and because Britain has seen many rounds of land price boom and bust, developers need to be able to deliver supernormal rates of return to investors to alleviate high levels of risk, and they need to get in and out of a development very quickly to avoid holding expensive and risky land on their balance sheets. With a few honourable exceptions, quality and place-making are not their priority. Our developers are what we have made them. We control the mechanisms to encourage them to behave in more sustainable ways.

6. The development process is not felt to be fair.

Finally, beyond the reasons outlined above, the planning process is often felt to be unfair by both members of the public who engage with it, and by the local councillors responsible for making decisions within it. A 2014 poll for the Royal Town Planning Institute, for example, found an overwhelming majority of the public – 79% – want a bigger say over the development of their communities.

Our highly complex and adversarial system sees land speculators (many of whom do not even build houses) and developers deploying an army of planning QCs and top legal advisors to try to beat down opposition from local residents in order to capture the bumper profits from planning gain. While developers can appeal the decisions of a local authority to the Planning Inspectorate, there is no equivalent community right of appeal.

Many of the key issues that people actually care about are not considered to be important considerations in this process. Perhaps surprisingly, the effect on the view, generally the main thing people are concerned about, is not a “material consideration” in planning. The MHCLG “planning aid” lists considerations which are not material. These include:

- Problems arising from the construction period of any works, e.g. noise, dust, construction vehicles, hours of working (covered by Control of Pollution Acts)
- Previously made objections/representations regarding another site or application
- Loss of property value
- Loss of view

We should recognise the public mistrust and cynicism that has built up in our system. Therefore, while central government must have powers to step in where a local authority is unable to produce a plan, local authorities which are meeting their housing need should have greater freedoms to shape development in their area.

Recommendations

Recommendation 1: Move from piecemeal, sequential development tacked onto existing villages and towns, to planned new villages, towns, cities and urban extensions.

At present, perhaps surprisingly, the process of making a local plan does not start with a local authority deciding where the best locations are to build homes. It does not start with careful thought about where in the landscape new developments might be best concealed. Or about which areas of our towns and cities we might regenerate first. Instead, it starts by asking landowners which parcels of land they would like to bring forward for development.

We need a shift from this fundamentally *passive* system – in which speculative developers take the lead in determining where building takes place – to a more European-style *active* system in which central and local governments play the leading role in deciding where new homes go by acquiring land and preparing it for development.

With this we should also move away from piecemeal and sequential development. We should revise guidance and planning culture to promote planned new developments at different scales – from new villages to new garden towns and cities.

The current model of sequential development dominates for the following reasons:

- **Councils lack power and capacity.** Councils do not have the money or powers to play the role their counterparts play in Europe in assembling land and creating serviced plots and new settlements.
- **Guidance favours sequentialism.** Planning guidance, the practice of planning officers, and the actions of the planning inspectorate all reinforce this bias towards piecemeal, sequential development.
- **Decision making is fragmented and central government has withdrawn.** Central government stopped creating new cities after the 1980s, and central government plays no role in helping craft wider spatial plans that can integrate national budgets (transport, education innovation) with local plans.

New communities: Lessons from Europe

Successful new communities and urban extensions share a number of common causes: strong local government, joined up across conurbations; an ability to capture more of the gains of development for the community than in the UK; a stronger lead role for local government in assembling land; and a heavy emphasis on an infrastructure-first approach, with public transport built into the design of new communities.

Nonetheless, there are a variety of routes to success, depending on circumstances. Urban researchers like Sir Peter Hall and Nicholas Falk have drawn a number of lessons from different places:

Ørestad, Copenhagen – transport led development. Instead of a green belt surrounding the city, Copenhagen has a longstanding strategy to concentrate development along public transport routes (the so called “finger plan”) to enable people to access the city and the countryside easily. The most recent development, Ørestad, is a long thin new town based on regeneration of abandoned public sector land. A new metro line serves it, funded by the increase in land values created by the development. As part of an infrastructure-first approach led by the development corporation, the metro was built and opened before the first person moved into the new town in 2005.

Hamburg, Germany – controlling land, master planning. During the 1990s, Hamburg developed a 25-year plan to revive its former docklands. During the process of development, the city quietly bought up derelict buildings and land in the 150-hectare area, adding to land it already owned. In 1999, it held an international competition for a master plan which is being delivered by a development agency over 25 years. Developers compete on quality and price to build blocks of the development, which include a new university campus, museum, and subway station.

Freiburg, Germany – self-financing development. The development of major urban extensions like Vauban in this fast-growing and eco-friendly German city have been financed by capturing more of the gains of development than in the UK and selling on the land in plots to *baugruppen* – family or community groups and small developers. Compared to the UK, where the norm is for the state to pick up wider infrastructure costs, the city has gained transport infrastructure, kindergartens and schools at near zero net cost.

Almere, Netherlands – enabling self-building. Almere is a new town built on reclaimed polderfields. Twinned with Milton Keynes, it has been developed along a railway line to Amsterdam. The city is known for its large numbers of self-built and custom-built homes, with the city providing a masterplan, infrastructure and serviced housing plots. People then pick a design (often from a pre-approved list) and can find help from a local housing association with finance and managing builders and architects. Other factors make the city distinctive. For example, the town plan means no through-traffic – vehicles can deliver items to homes but not park.

Amersfoort, Netherlands – providing infrastructure up front. The city of Amersfoort has built a number of major urban extensions. Vathorst in the north will house 30,000 people. The city formed a joint venture with five companies to pool land and install infrastructure. Public transport is being plumbed in in advance of development. The Dutch government paid for a new railway station and the city paid for it to open four years before the national railways would have opened it based on demand alone. The city also subsidised public buses in the first years. The whole development is geared to encourage cycling and walking.

Lille-Roubaix, France – working together across a conurbation. Lille, Roubaix and Tourcoing form the heart of a dense conurbation not unlike the West Midlands or North of England. But they have a tier of government covering the whole conurbation – the Métropole Européenne de Lille. Starting in the 1960s, its powers have grown from covering public transport to spatial planning, urban regeneration, culture and sport and housing. After de-industrialisation, unemployment rose and outer parts of the conurbation decayed. The city built an automatic metro system to connect outer parts to the more buoyant core, lobbied for stop on the new high speed rail line and build a new central business district around it.

Source: Drawn from Nicholas Falk, “Smarter urbanisation and inclusive growth” (2017), and Hall and Falk, “Good cities, better lives” (2013).

Increase power and capacity in local government

The section below deals with the major financial reforms needed to change the balance of power between landowners and developers on the one hand, and councils and the community on the other.

The legal framework to enable a new role for local authorities is already emerging, through reforms in the Neighbourhood Planning Act 2017. Once in force, Section 16 of the Act will allow the transfer of functions under the New Town Act 1981 from central government to one or more local authorities within the area proposed for a New Town. Localists might think it attractive to remove the Secretary of State and Chancellor’s veto of the creation of local new towns, but the Act is a good start.

However, unlike their counterparts in other countries, most local authorities in Britain have little experience of master-planning a new development. The Government should create an independent support network for councils with major new developments (along the lines the New Schools Network plays in supporting new free schools). This should aim to incorporate the expertise of groups like the Prince of Wales’ Foundation for Building Communities, and the experience of other European countries.

Change guidance to be more favourable to new communities

National planning guidance and local planning practice currently assume that sequential development is the norm. The National Planning Policy Framework is hostile to isolated homes in rural areas, and, although it floats new garden towns as a possibility, it hedges this with caveats about community consultation and checking whether new green belts are needed around any new development.

Planning practice reflects generations of initiatives which are hostile to new development outside existing boundaries. For example, various policies have been developed over recent decades aiming to create “brownfield first” and “town centre first” development.

A target of 50% of all new residential development to be built on previously-developed (brownfield) land was set by the then Conservative Government in its 1995 Housing White Paper. Subsequently, the Green Paper “Household Growth: where shall we live?” issued in November 1996, sought views on “the value of an aspirational target of 60%, or whether we could do even better”. In February 1998, the White Paper “Planning for the Communities of the Future” stated that the Government expected: “local planning authorities to raise the national proportion of new homes to be built on previously developed land to 60% over the next ten years”. Planning Policy Guidance Note 3: Housing published in March 2000 subsequently included this target.

The highly influential Planning Policy Guidance 1 also talked about “*preferring the development of land within urban areas, particularly on previously-developed sites*”.

In 1993 Planning Policy Guidance note 6 (PPG6) set out a “town centre first” approach to planning which aimed to discourage out of town retail developments and so support regeneration of town centres. This principle was maintained in updated guidance in 1996 and in 2005. The current National Planning Policy Framework also continues to favour town centre development and states that local authorities should prefer town centres and evaluate the impact of out of town development on town centres.

Guidance on sustainability can have a similar effect. For example, in one instance the author is aware of, guidance on “sustainability” has made developers revise plans for a development, to flip it so that instead of having planned open space near existing homes, separating them from the new development, the homes are instead to be pressed right up against existing residents – so that they are easier to walk to from the centre of the village. The planned open space is, uselessly, on the edge of the village, while the new homes will overlook existing residents.

There are a number of instances where planning inspectors have struck down local authorities’ plans for new garden villages which would have reduced the level of sequential, piecemeal development – for example in the Lodge Farm case in Rugby,⁴³ and Colworth Garden Village in Bedford.⁴⁴ As well as building more in new planned communities, guidance should require councils to plan infrastructure on the basis of cumulative impacts, not just individual applications.

Where new communities are planned – be they villages, towns or cities – infrastructure can be properly planned for from the start, with room and scope allowed for growth over time, as in some of the European planning examples above.

This is obviously not possible when sequential development sees huge volumes of traffic passing through the narrow streets of a centuries-old village; or where facilities like doctors’ surgeries or primary schools are hemmed in and unable to expand to meet the needs of an enlarged community.

Getting away from a developer-led system to a more active planning system would help avoid the situation where economic and social infrastructure is put under ever greater pressure by badly thought-through piecemeal development.

But even if we can direct more development towards new planned communities, as suggested in this paper, there will still be developments outside these sites on a similar basis to today.

At present, developments in an area often come one after another, each adding to the burden on local infrastructure but none big enough individually to trigger investment in new infrastructure.

As a result, we should also require local authorities to assess planning applications and infrastructure needs (roads, parking, school places) on the basis of cumulative impacts over the plan period, rather than one-off assessments of individual planning applications.

Recommendation 2: Tilt policy towards building more in our cities. Support urban regeneration and support the rebalancing of the economy.

The shift from a manufacturing-based economy to a services-based “knowledge economy” has led to a revival of cities in many parts of the UK and indeed across the West. The growth of higher education, migration and the growing popularity of city-centre living have all increased demand for housing in our cities. All of the UK’s largest cities are now experiencing strong population growth after several decades in which their populations shrank. The UK has been unusual in having had most of its growth outside the larger cities for several decades – but larger cities are now catching up.

Figure 15: Population change in Britain’s 10 largest cities, 1981=100⁴⁵

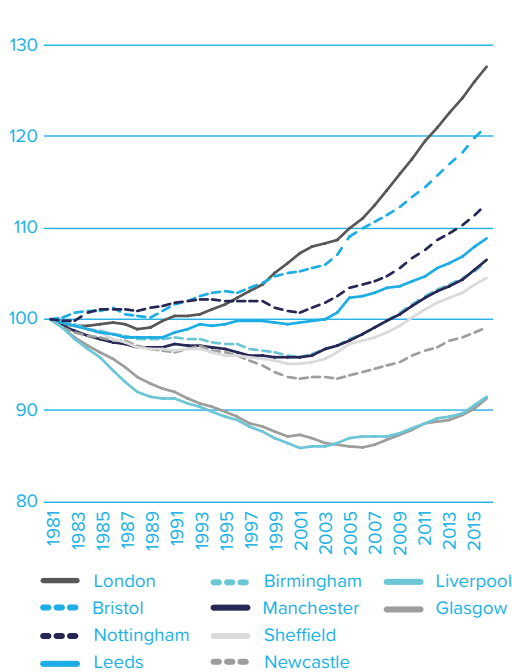
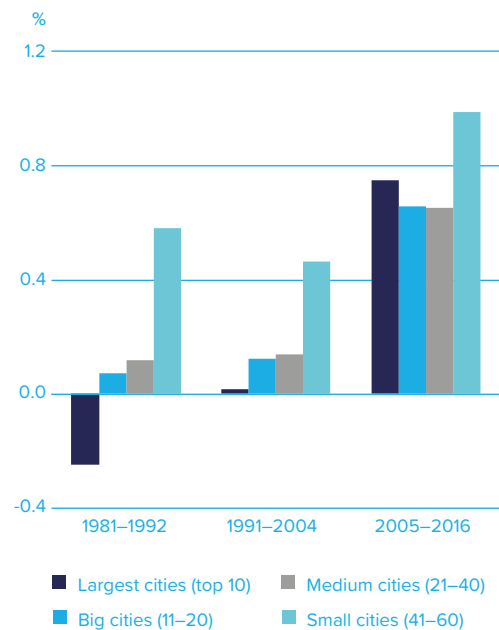


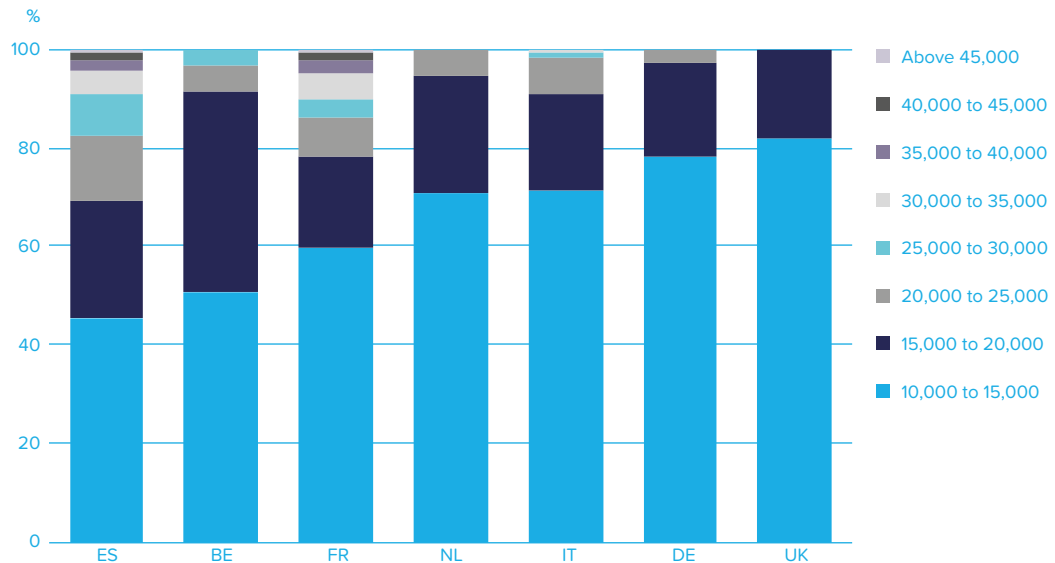
Figure 16: Annual population growth by city size⁴⁶



Both demand for, and support for, new housing is strongest in our urban areas, so there is a logic to trying to solve the problem where there is strongest support for a solution.

Although Britain is often said to be densely populated, its cities have surprisingly low population density compared to other countries. Research by the Centre for Cities, based on Eurostat data, measures density by dividing different countries into square kilometre tracts. The UK has very few extremely high density areas compared to European peers. Despite comprising a much greater area overall, France and Spain have radically denser cities than the UK.

Figure 17: Square kilometre units of land by population⁴⁷



The OECD's *Sprawl Index* also suggests that cities in Spain, Germany and the Netherlands are becoming denser, while cities in the UK are becoming less so.⁴⁸

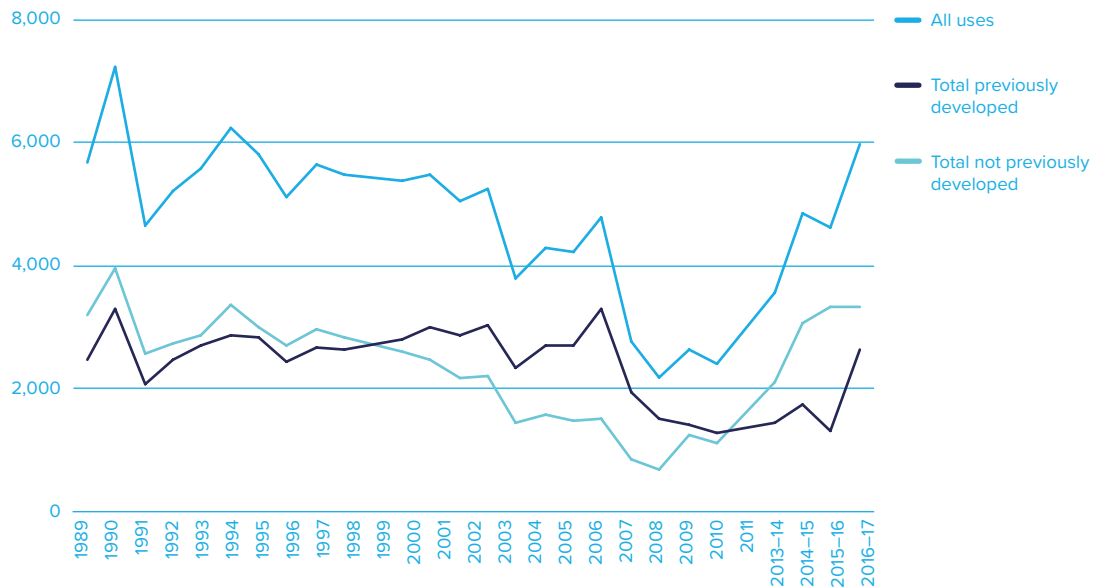
Building more by densifying urban areas also has potential benefits. In dense urban areas, people are more likely to walk or cycle – and in the UK, people in cities walk twice as far as those in villages each year.⁴⁹ This reduces public transport costs. Denser cities can sustain better public transport and so cut car congestion and time spent travelling. As well as reducing pollution from transport, denser cities reduce energy use because flats and terraced homes are more energy efficient.

Our goal should be to densify our urban areas, but also to avoid the loss of valued green spaces in our cities, and to provide an attractive way to live at high densities.

Making it easier to change the use of under-used buildings into housing is one way to do it. The Government has made it easier to turn surplus office space into housing under Permitted Development. Change of use has increased from 11,500 homes in 2010/11 to 37,200 in 2016/17 – and re-use of old buildings now accounts for about 17% of all net new homes in England.⁵⁰

Groups like the Campaign for the Protection of Rural England (CPRE) rightly highlight the potential to do more with brownfield land. It is not a panacea, and there will always need to be development on non-brownfield land. As noted above, successive governments have announced different “brownfield first” policies and minimum density targets. They do not appear to have increased the amount of brownfield land being turned into housing each year. Between 1997 and 2009, it looked as though they had reduced the amount of greenfield land coming forward, but more recent data suggests even that is no longer the case.

Figure 18: Land use changes to housing (hectares)⁵¹



Why have brownfield policies not been more effective? It does not seem to be a lack of demand for urban living. As noted above, the number of new homes being provided through change of use (like turning offices into homes) rather than new brownfield building has soared – providing one in five new homes in London.⁵²

One reason brownfield land often goes undeveloped is because it is expensive to develop. But with resources from more effective capture of planning gain, more could be done.

Another reason for the lack of brownfield development is that urban sites are often fragmented, with small plots in multiple landowners’ hands. This means owners with ransom strips or a lock on access can hold out or demand unreasonable payments. Individuals and companies with parcels of land that are still in use face difficulties in finding new premises, so can be reluctant to move. Some former industrial sites are not served by public transport.

With a strong lead from local government in pooling the land, this coordination problem can be fixed and high value created. For example, an individual warehouse or plot of land in a former industrial part of town may be unviable to develop for housing on its own, because it is unattractive, inaccessible or cut off from vital utilities. But if the whole area is regenerated around it and new transport options and utilities plumbed in, it can soar in value.

However, many local authorities are small and lack experience in complex urban regeneration. In addition to the measures to reform CPO and land purchase above, Homes England should become a powerful partner that local authorities can call in to help make regeneration happen. Extending the powers of Homes England as a regeneration agency by enabling it to act as a planning authority in urban areas would be helpful. By making Homes England the planning authority for major regeneration sites, it could bring greater long-term stability and certainty for complex redevelopment projects which may take many years. Homes England should also be able to use the powers in the New Towns Act and create development corporations across the whole country.

Central government should develop a clear strategy to tilt housebuilding towards our cities. In particular, ministers should commission a successor to the influential Urban Task Force report of 1999 and develop a wider strategy, which could include a number of measures. We should:

- Review the formula used to calculate Objectively Assessed Need (OAN) goals for each local authority, to better take into account the potential for cities to densify and regenerate more land.
- Further liberalise change of use, and oppose councils which are currently lobbying to end it, building on the highly successful Permitted Development reforms that have allowed unwanted office space to be converted into new homes. For example, it could make it easier to turn industrial and commercial properties into homes.
- Allow easier change of use to enable retail units and car parks to be turned into homes. With the rise of online shopping some out-of-town retail parks will become unviable. Many are not aesthetically valuable and could be promising sites for new homes.
- Task Homes England with helping local authorities regenerate and re-purpose town centres. Many town centres are facing reduced demand for retail space, but without some coordination and master-planning they cannot become useful for housing. It is not sensible to plonk a house in the middle of a high street filled with vacant shops.
- Further reshape decision-making about transport investment and other growth-enhancing spending, so that it does more to support building on the Transforming Cities Fund and Housing Infrastructure Fund.
- Devolve powers over transport beyond mayoral combined authority areas, to include all areas with an agreed spatial strategy. Most importantly, ministers could enable London-style bus franchising in order to support the growth of PTAL-style systems outside London, enabling Local Authorities to support higher density development where they can be certain of better public transport.
- Enable more tall buildings to achieve greater density, including by reviewing protected “sightlines” which prevent building up in London.
- Explore other ways to achieve density. It is striking that highly desirable places like Kensington, Chelsea and Islington are among the very most densely populated parts of London. The think tank *Create Streets* has developed a set of principles for “gentle density” based on the classic tall, thin urban terrace, and proposed changes to regulation and guidance to support this type of building.

- Reduce the pressure in areas where housing is most expensive by enhancing policies to rebalance the economy, building on the Northern Powerhouse and Midlands Engine. This could include rebalancing central government housing capital, science spending and transport spending towards high-demand areas outside London. In particular, ministers should look to rebalance spending on innovation and new research institutions towards slower growing regions, recognising the seminal role of such institutions in local growth.

Recommendation 3: Central government should create a new generation of garden cities, integrate planning for transport and housing, and in the longer-term consider merging the Department for Transport and the housing and planning functions of the Ministry of Housing, Communities and Local Government.

In the UK, major projects like High Speed 1 have seen the Government make huge investments in infrastructure without using it to drive housing and development. Professor Paul Cheshire has analysed how the vast investment in Crossrail has not been accompanied by any deal to either build upwards around its urban stations or build around stations in the Green Belt – which will overnight become incredibly well connected to the centre of London. Meanwhile, many sites that local people and local government would like to prioritise for development are unviable because councils do not have the money for the transport investments needed to open them up.

A number of other European counties have better systems for integrating planning for housing and transport. The Netherlands, operating at a population density comparable to the South East of England, has managed to grow their stock of housing twice as fast as Britain. This is thanks in part to highly active master planning by the Dutch Ministry of Housing, Spatial Planning and the Environment (VROM). A series of spatial plans for the whole country, most notably the Ministry’s fourth 10-year plan (VINEX, running from 1995–2006) have seen central government working with local authorities to allocate development sites and planning transport on a grand scale. The plan prioritises relatively dense developments with good public transport (including cycling) and also aims to protect the “green heart” of the densely populated Randstad conurbation.

UK attempts to replicate some of these features through regional planning in the 1990s failed because, on the one hand, artificial regions lacked power, legitimacy and resources, but, on the other, opaquely-set targets handed down from regions to local authorities built resentment.

In recent years, UK policy has taken a more promising turn, with programmes like the Housing Infrastructure Fund aiming to support housing and allow infrastructure to lead development. Meanwhile changes in approach at the Department for Transport have seen investment programmes like the Roads Investment Strategy (2015–2020) and Control Period 6 (which sets out rail investment between 2019 and 2024) increasingly respond to housing need.

Government has also started to sponsor new settlements, albeit on a much smaller scale than other European countries. By 2020, more than 25,000 housing starts are expected in garden villages, towns and cities supported by the Government. Homes are already being built in several locations, including Bicester, Basingstoke, Didcot, Otterpool Park in Kent, Ebbsfleet, Aylesbury, Taunton and North Northants.

To further support the gradual shift towards more integrated planning for transport and housing, and a more proactive role for central government, the Government should in the longer term consider merging the Department for Transport and the housing and planning functions of the Ministry of Housing, Communities and Local Government in Whitehall.

Taking a lead from the wider area planning underway for the Oxford-Cambridge corridor, the newly created Department of Housing and Transport would be able to work with HM Treasury and local authorities to promote regeneration and housing schemes than span wider areas – for example around North Kent and High Speed 1, or in the Transpennine corridor.

Where local authorities have come together, either via combined authorities, or via a joint spatial plan, central government should be prepared to back regeneration. The Transforming Cities Fund should be expanded to cover non-mayoral areas which adopt a common spatial plan. Building on City Deals and the Devolution Deals process, central government and Homes England should work with groups of local authorities to support housing and regeneration schemes, providing technical assistance, capital, financial transactions or guarantees as appropriate.

While empowering local authorities to create new villages and towns, central government should create a new generation of garden *cities*. For high demand areas, central government should review possible locations for new town- and city-sized developments which would reduce the pressure for piecemeal development around them. This could usefully draw on the locations and planning work done by entrants to the 2014 Wolfson Prize.

Garden cities and new towns

New settlements have a long history in Britain. In 1898, Ebenezer Howard advocated the principles of a garden city model. It would take the best elements of the city and merge them with the best elements of the countryside. These ideas were the inspiration for the first garden cities in Letchworth and Welwyn.

After the Second World War, the New Towns Act 1946 established an ambitious programme for building new towns to aid recovery and address the acute housing shortage. In three waves running from 1946 to 1970, 21 new towns were created in England with six more in Scotland, two in Wales and four in Northern Ireland. The New Towns are now home to more than 2 million people.

During the 1980s, the New Towns continued to expand but central government moved away from the creation of new cities. Instead government pressed forward with Urban Development Corporations to regenerate and expand existing cities. 16 UDCs were created, mainly between 1981 and 1993. The most famous included the Liverpool and London Docklands developments.

More recently, Mayoral Development Corporations are delivering the regeneration of Old Oak Common and the former Olympic Park in London. In the 2014 Budget, the Coalition Government announced that it would support a new Garden City at Ebbsfleet in Kent, where up to 15,000 new homes will be built on the site of a large former quarry, with a new Development Corporation to deliver it.

In recent years, a number of different proposals have been made for where and under what conditions further new settlements could be built. In January 2017, the Government announced that it would support 14 new locally-led proposals for garden villages with between 1,500 and 10,000 homes each.

Looking at the future prospects for larger new cities and urban extensions, the Wolfson Economic Prize 2014 asked for proposals for how to build popular new settlements.

The winners of the prize, a team from the consultancy URBED, proposed a plan to create a garden city of almost 400,000 people by doubling the size of an existing city. Their proposed “snowflake” shaped city would see three urban extensions just touching the historic city of Uxchester (an amalgam loosely based on Oxford and a number of similar sized cities). Their plan involved a tram or busway connecting the three extensions with strong public transport to the historic city and its mainline railway station. They argue that new cities are easier to get off the ground if they can grow out from an existing place. Their financial model suggested that after repaying upfront investment, the new city would be making a profit for its backers after 14 years.

Housing and homelessness charity Shelter were the runners up and took a different approach based on starting from scratch. They proposed a new garden city on the sparsely-populated Hoo Peninsula in Medway, Kent, which currently hosts a number of industrial facilities and small villages.

Commencing with a settlement of 15,000 homes (36,000 people – about the size of Letchworth Garden City) built over 15 years, Stoke Harbour would eventually grow into a garden city of 60,000 homes (144,000 people – slightly smaller than Oxford). The proposal involves a new model designed to attract massive private investment into the provision of high quality homes, jobs, services and infrastructure.

Recommendation 4: Capture more of the gains from development.

This section looks at some different ways we could in theory capture the uplift in land values created by the grant of planning permission. As noted above, currently only around 25% of this value is captured for the community.

Estimates by the Centre for Progressive Capitalism suggest that delivering land into development projects at lower values that have not priced in such expectations could release an extra £9.3 billion per year, in addition to the funding currently captured from residential projects through Section 106 and the Community Infrastructure Levy.

This section looks at land value taxes and development taxes, but concludes the best solution is likely to be simply for local and central governments to buy land, grant themselves planning permission, and sell on the land at the uplifted rate – a method widely used around the world.

It concludes by looking at how we could make such a system work – by providing local government with the legal and financial firepower to buy or control land; by reforming the way local government buys land to make it cheaper; and finally complementing this by reforming Section 106 and requiring all land options to be transparently registered.

A land value tax?

The case for taxing land rather than other things is theoretically undisputed. Economists from Adam Smith to David Ricardo to the recent Mirlees Review of the UK tax system all agree on the case for land value taxation (LVT). Milton Friedman called land value taxes “the least bad tax” because, unlike taxes on capital or income from labour, a land tax does not disincentivise effort or investment. Land value taxes are also not easy to avoid, as unlike capital or labour income, land can’t be moved abroad or hidden from the taxman. The introduction of a pure land value tax would simply lead to a lower price of land. But that loss is the only effect of the tax: the incentive to buy or develop or use land would not change.

Arguments for land taxation also have powerful ethical and political arguments behind them. The value of a piece of land (as opposed to what might be built on it or done to improve it) is driven by factors generally outside the control of the landowner. For example, a piece of land is worth far more if a city grows up around it than if it remains in open country. Everyone needs a place to live and work, and the supply of land is fixed, so owners of land are able to extract an economic rent from ownership. Unlike other forms of capital, land also tends to increase in value over time if the landowner does nothing, or indeed increase more quickly if the supply of land is constrained. Contemporary housing developers build out their developments more slowly than they would otherwise, in order to maintain market prices.

Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains – and all the while the landlord sits still. Every one of those improvements is effected by the labour and cost of other people and the taxpayers. To not one of those improvements does the land monopolist, as a land monopolist, contribute, and yet by every one of them the value of his land is enhanced. He renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived... I have no wish to hold any class up to public disapprobation. I do not think that the man who makes money by unearned increment in land is morally worse than anyone else who gathers his profit where he finds it in this hard world under the law and according to common usage. It is not the individual I attack; it is the system.

Winston Churchill, speech delivered at King’s Theatre, Edinburgh, July 17th, 1909

Suppose that there is a kind of income which constantly tends to increase, without any exertion or sacrifice on the part of the owners: those owners constituting a class in the community, whom the natural course of things progressively enriches, consistently with complete passiveness on their own part. In such a case it would be no violation of the principles on which private property is grounded, if the state should appropriate this increase of wealth, or part of it, as it arises. This would not properly be taking anything from anybody; it would merely be applying an accession of wealth, created by circumstances, to the benefit of society, instead of allowing it to become an unearned appendage to the riches of a particular class. Now this is actually the case with rent. The ordinary progress of a society which increases in wealth, is at all times tending to augment the incomes of landlords; to give them both a greater amount and a greater proportion of the wealth of the community, independently of any trouble or outlay incurred by themselves. They grow richer, as it were in their sleep, without working, risking, or economizing. What claim have they, on the general principle of social justice, to this accession of riches?

J.S. Mill, Principles of Political Economy with some of their Applications to Social Philosophy, 1848

Although land value taxes do exist in Australia, Estonia and Denmark, there are a number of reasons why a pure and comprehensive LVT is relatively rare in practice. Administering such a tax requires government to assess the value of all properties covered continuously, which is administratively burdensome and values are often contested. Business rates, which operate on a similar basis, see frequent complaints and appeals. There are also some owners of land who can be hard done by in such a system, such as little old ladies in big houses who may be asset rich but cashflow constrained, and whose inability to pay drives political opposition.

These reasons suggest that HM Treasury should thoroughly evaluate the possibility of introducing a land value tax. Thoughtful advocates of a land value tax (e.g. Collins, Lloyd and Macfarlane, 2018) have sketched out how it could be introduced very incrementally, displacing other worse taxes over time. With some countries running successful land taxes, there's no question that it is worth exploring a land value tax for the UK to reduce other taxes. But in the shorter term, we will probably need a different, more readily workable, and politically deliverable tool.

Taxing planning gain?

An apparent alternative approach would be to tax planning gain. In a country with no planning law, the value of land would be determined only by its location. In a country where development is controlled, it turns on both its location and what the owner can get planning permission to develop. By creating scarcity, planning law effectively dams up the value of land, meaning that where planning permission is granted the value of land surges upwards.

As noted above, at the stroke of a planners pen land can become worth 100 times more overnight.

Taxing these huge surges in value seems intuitively easier than implementing a Land Value Tax. Yet, while not impossible, it is worth noting that, in practice, successive governments have tried and failed. The Town and Country Planning Act 1947, Land Commission Act 1967 and Development Land Act 1976 all aimed to tax planning gain by levying a charge based on the difference between the value of a property under its existing use and the value with permission to develop. All were repealed.

While the Acts differed, the fundamental problems were similar. The most important problem was that each could be avoided by landowners not taking action and waiting for the law to be repealed. Accentuating this, the taxes were also set at very high levels – 100% in the case of the 1947 Act and 80% in the case of the 1976 Act – making it more appealing to hold off development that would trigger a charge.

While each of the Acts was complicated, this partly reflects the fundamental complexity of trying to determine both current use value and post-planning permission value. In each case the tax led to a shortage of land coming forward because landowners decided to wait out the tax or sit on their hands.

It may be worth having another attempt at a development charge, and with less aggressive rates it might have a better chance of sticking. But a still simpler approach may be better, and it is an approach widely used around the world.

A simpler solution: capturing the gains by buying or controlling the land

One way to avoid the complexities of land value taxes and development levies is for local and central government bodies to simply buy the land themselves, grant themselves planning permission and then sell on the land at the uplifted rate.

Instead of a confrontational argument with landowners about what land values are both before and after planning permission should be, local or central government can pay the market value and then receive a higher market value on sale.

Although this could sound statist, it is actually the approach taken by Margaret Thatcher's Government, and the most successful capitalist economies of recent decades:

- In Singapore, the Government simply owns most (90%) of the land itself, and so captures the gains from development. Leasing out the land and occasionally selling parcels is a significant source of funding for the Government.
- In South Korea, the Korean Land and Housing Corporation carries out around half of all housing development and all industrial development. It has built numerous new cities and buys land without planning permission, where it expects prices to rise.
- In Hong Kong, the Mass Transit Railway (MTR) buys land at greenfield prices, develops new lines and then sells off the land around and above the stations. Since the 1970s, this model has been used to fund the development of all new lines. While most railway systems around the world require a government subsidy, the MTR, which is owned by the Government, returns a significant profit to the city, around half of which comes from its property development work.

These countries have solved the problem of taxing land and avoiding windfall profits by having the State play a leading role in buying and developing land. We used to do the same in Britain too.

The New Towns Act was used to develop a series of new cities between 1946 and 1970. New Town Development corporations were created for each. They compulsorily purchased land at agricultural prices, laid out a masterplan, built infrastructure using Treasury loans, and then sold the land in parcels to the private sector, repaying the Treasury with the proceeds. Their reputation has been hampered by the fact that they ran during the heyday of modernist architecture, concrete and town planning. Nonetheless, they are extremely successful, housing over 4% of households or 2.75 million people. Some, like Milton Keynes, are among the fastest growing economies in Britain.

We have applied the same principles within our great cities too. Set up during Mrs Thatcher's premiership and running between 1981 and 1998, the London Docklands Development Corporation (LDDC) drove the transformation of the docklands area, using control over planning and CPO powers to de-fragment ownership of the land (which was in many different hands) and capture the gains to part-finance improvements to the area and vital infrastructure. Although working on a more difficult site than the New Towns, the LDDC oversaw the transformation of the area from a derelict wasteland to a fast-growing financial centre, with the new Docklands Light Railway, 144 km of new and improved roads, a conference centre and an international airport. In Merseyside, a similar corporation oversaw the regeneration of Liverpool Docklands and the Albert Docks.

Around Europe, many local authorities use this model. Where local government has the ability to buy, CPO and control land, it often does not actually need to buy the land in practice, as it is able to enter into long-term joint ventures with the private sector.

Central and local government should be able to borrow to buy land

Governments around the world have borrowed in order to finance the purchase of land without planning permission and so captured the uplift by granting itself planning permission. We should do the same in the UK.

The Treasury should finance local and central government to buy land without planning permission and prepare that land for development. This Land Purchase Facility (LPF) should allow borrowing to buy land wherever there is (a) a realistic prospect of a cash return on this investment over a reasonable time horizon, and where (b) it would allow land to be brought forward when it would not otherwise do so.

In order to allow this to happen at scale, this borrowing should be ring-fenced and excluded from the wider measures of deficit and debt that HM Treasury aims to control. As it has for other measures, such as the Bank of England's Asset Purchase Facility and Term Funding Scheme (the so-called "ex measures"), the Treasury should publish a measure of debt and deficit with and without the impact of the Land Purchase Facility.

The fiscal impact of this scheme on the main current measures of government borrowing and debt would be to increase borrowing compared to forecast while the scheme was rolled out (debt is currently falling), to elevate debt, but not to impact the deficit once in steady state (because receipts from sales would come to match spending). If the scheme was ended debt would fall back to its level and the trajectory it would have otherwise been on.

We should always be very wary of arguments for government to "borrow to invest" which have previously led the economy to disaster. Politicians sometimes want to borrow for things which are not really investments, and leave someone else to pick up the tab later. Hence the suggestion here of carving out investments with a realistic prospect of earning a *cash* return to the Treasury and which *cannot* be done privately. There might in theory be other things that could pass this stringent test, but buying land cheaply and capturing the planning gains from it seems far and away the most likely to do so.

If local government is able to borrow to buy land, it can effectively reverse the order of the planning system. At present, land on the edge of existing settlements is traded and increases in price, in the expectation that planning will eventually be awarded. If local government can negotiate to buy or gain control of the lowest price land before awarding planning, then councils, rather than speculators and developers, can capture the gains from the uplift. More predictable planning at scale would also reduce risk and open development up to sources of longer term capital like pension funds, limiting the demand on public borrowing.

While local authorities could do all this without reform of CPO powers, there will sometimes be one landowner or someone with a ransom strip who tries to hold out for a windfall profit. This model is more likely to be viable if national and local governments do not need to pay over the odds to acquire the land.

Reform land acquisition

Government already has a powerful tool to assemble land in the form of the powers in the New Towns Act. But at present only central government can use the powers within it, and its effectiveness has been blunted by controversial case law. This paper proposes to restore the original intent of the law and widen its scope to allow bodies other than central government to use it.

When the original New Towns programme was underway, the New Towns Act allowed government Development Corporations to buy land at existing (agricultural) market prices, install infrastructure and grant themselves planning permission, before selling the land on to developers and using the proceeds to repay the infrastructure costs. This legislation and model worked well for decades.

But central government stopped using it, and prevented local government from using it. Towards the end of the New Towns programme it was also increasingly challenged over time (see below).

First, central government should start using the New Towns Act again to deliver large new settlements, (explored in more detail above).

Second, it should also enable local government to use these powers. The Neighbourhood Planning Act 2017 will enable the Secretary of State to delegate New Town powers to local authorities, albeit with a veto Secretary of State and an effective veto for the Treasury, through a £100m borrowing cap. Central government should not stand in the way of councils which wish to use these powers, and should ideally make it possible for local authorities to create their own new Town Development Corporations without having to ask central government to do so. Government should also heed detailed suggestions from planning experts like Andrew Lainton about what needs to happen for the powers to be used effectively in practice.⁵³

Third, we should restore the original intent of the law. The New Towns Act is clear that in areas designated for development, government should pay the existing use value for land.

However, as noted above, a series of legal cases, together with the 1961 Land Compensation Act, have shifted practice over time. As a result, instead of paying the current market price for land, central and local government have had to pay the current market price *plus* “hope value” – a value based on the possibility that the landowner might get planning permission for a different and more valuable use at some point in the future. In practice, this has made it prohibitively expensive and complex for the old New Towns model to be viable, and even where government spends taxpayers’ money on major infrastructure projects, the value of this investment is often not discounted when government buys the land for the infrastructure. The system has become unbalanced.

The principle and practice of paying “hope value” is highly questionable. In one of the seminal court cases which established this principle (Myers vs Milton Keynes Development Corporation 1974), Lord Justice Denning set out what land valuers would have to do for major CPO schemes – although he put it in terms which many have pointed out rather make the case *against* such an approach:

The valuation has to be done in an imaginary state of affairs in which there is no scheme. The valuer must cast aside his knowledge of what has in fact happened in the past eight years due to the scheme. He must ignore the developments which will in all probability take place in the future 10 years owing to the scheme. Instead, he must let his imagination take flight to the clouds. He must conjure up a land of make-believe, where there has not been, nor will be, a brave new town: but where there is to be supposed the old order of things continuing — a county planning authority which will grant planning permission of various kinds at such times and in such parcels as it thinks best, but with an assurance that in March 1980 planning permission would be available for the residential development of the Walton Manor Estate. In this imaginary state of affairs, the valuer has then to ask himself: What is the appropriate way of valuing the land with this assumed planning permission?

Homelessness charity Shelter has sketched out in detail how the legislation framing land acquisition by government might be reformed.⁵⁴ This would involve three changes to legislation and guidance:

Reforming land acquisition

1. An amendment to the National Planning Policy Framework to allow planning authorities to designate land for strategic development.

Within these designated areas, no account should be taken of prospective planning permissions or certificates of appropriate alternative development when assessing CPO compensation levels. This would require a final pair of amendments to planning legislation:

2. An amendment to Section 14 of the 1961 Land Compensation Act to disregard prospective planning permissions on land designated for strategic development;
3. An amendment to Section 17 of the 1961 Land Compensation Act to restrict the use of certificates of alternative development on land designated for strategic development.

In other words, in this special CPO compensation code for land identified within a strategic development, fair market value should take account of existing planning permission only, ignoring any betterment attendant on the development.

These reforms would bring the UK closer to systems like the Netherlands, where there is a clear methodology for the calculation of compensation where land is purchased by government. It would be based on a multiple of its existing market use value, plus a clear right for the local authority to use CPO powers if a landowner does not release land needed for the fulfilment of a local Land Use Plan. Because Dutch local authorities have strong clear powers, CPO does not actually have to be regularly used in practice, as landowners strike voluntary agreements. It is worth repeating that, compared to around 25% of the uplift in values being captured for the community in Britain, in the Netherlands nearly 90% of the value can be captured for the community.

This reformed CPO should be an option for all local authorities, Homes England, and central government. Communities making neighbourhood plans should be able to specify that their local authority should use CPO on their behalf. However, CPO is sometimes controversial, and it would be possible to limit the use of this reformed form of CPO either to particular tiers of government or to particular designated areas (e.g. inner cities) in the first instance.

Push down the price of land by increasing competition between landowners

Giving local government the fiscal firepower to buy land, and rebalancing CPO legislation to make it more widely useable again, would not mean local government would have to actually compulsorily purchase lots of land. Rather, renewing the option to use CPO would enable local government to negotiate land purchases at a lower price than otherwise.

Reforming the system away from sequential development and reversing the order so that local government owns or controls land before granting permission are just as important as reforming CPO and compensation for purchase, because edge-of-town land is likely to have had its “existing” use value already bid up to a high level.

In many cases, the existing market value of land on the edges of existing settlements can be prohibitively high. The land can be traded multiple times and these edge-of-town sites see their price steadily bid up.

Because these are the only sites which are developed under the UK system, there is a lack of competition. Landowners can sit on land waiting for prices to appreciate, safe in the knowledge that new land in new settlements is unlikely to come forward as an alternative. Local councils are not able to make landowners compete to bring forward land with the greatest benefit to the community.

Moving to a more European-style *active* planning system, and having local government buy land, would create more competition. If alternative sites can be developed, monopoly power is reduced and other land is worth less.

Reform Section 106 and require all land options to be centrally registered and transparent

Buying land, granting permission, then eventually selling it on, would allow local governments to properly capture the state-created value of planning gain. But even if much more development came about through this route, clearly many sites would still come through the current system. For those sites, we should remove the current restrictions from Section 106.

Section 106 contributions should no longer be required to be directly related to mitigating the impacts of the new development. Nor should there be any central government targets for the proportion of affordable housing a local plan should contain – local government should be free to invest the proceeds in social housing if they want – or something else if they think that is more important in their local context, and remain accountable to their local communities for delivering it.

At present, it is difficult for local authorities to get a sense of what it is viable or reasonable for the developer to pay. Even with a rough sense of how profitable a development is likely to be, it is unclear how much the developer themselves paid for the land. The developer can always plead that a charge would make their development unviable because they paid too much for the land.

Government should legislate to require all options on land to be centrally registered in reasonably standardised formats in order to have legal force. This would reveal how much developers are paying for land and allow councils to capture more of the gains which developers and landowners capture today.

It would also make it clear who controls what land, and whether competition is working well in different areas – with implications for competition which are discussed further in a later section.

Recommendation 5: Abolish central government controls which direct how Section 106 receipts are spent. Revise guidance so that more of captured planning gains are spent on initiatives of direct benefit to existing residents in the immediate vicinity of development.

As part of the plan-making process, councils are required to plan for a certain number of social or affordable homes. These numbers generally come out of the assessment of housing need and are then translated into the standard proportion of affordable housing an authority will ask for as part of Section 106 negotiations on each development.

The value raised by Section 106 and CIL has recovered since the recession, but the proportion of planning obligations going towards affordable housing has increased, meaning that in real terms nearly a billion pounds a year less a year is available for infrastructure and other community benefits than a decade ago. And of course, even a decade ago, people were raising the same concerns about insufficient infrastructure.

Table 3: The value of planning obligations and how they were spent⁵⁵

	Value of planning obligations (£bn)	Value of planning obligations (real terms £bn)	Share on affordable housing	£bn for housing	For other community benefits (£bn)	For other community benefits (real terms £bn)
2005/06	3.9	5.1	51%	2.0	1.9	2.5
2007/08	4.9	6.0	53%	2.6	2.3	2.8
2011/12	3.7	4.0	62%	2.3	1.4	1.5
2017/18	6.0	6.0	68%	4.1	1.9	1.9

Table 4: How planning obligations were spent in detail (£m)^{56, 57}

Contribution type	2005–06	2007–08	2011–12	2016–17
CIL	–	–	–	£945
Affordable housing	£2,578	£3,221	£2,479	£4,047
Open space	£278	£289	£121	£115
Transport and travel	£466	£569	£452	£131
Community	£97	£237	£171	£146
Education	£198	£333	£218	£241
Land contribution	£1,237	£1,108	£323	£330
Other obligations	£193	£226	£32	£50
Total value	£5,063	£6,006	£3,988	£6,007

Affordable housing may be what local authorities want to spend developer contributions on, or they may not, depending on local circumstances. In future, as part of a simplified Objectively Assessed Need, councils should only have to plan for the total number of homes needed rather than central government requiring a target for affordable housing. This should not obfuscate the need for cheaper and better housing in local areas, but it will make local authorities properly accountable for delivering housing to their local communities, rather than to central government.

If we both capture far greater planning gains, and also give councils greater freedom over how to spend those revenues, then investment in transport, education, community facilities, land, parks and open space could be far greater. This in turn could dramatically reduce opposition to local development.

Of course, it is likely that a large part of the revenues from capturing planning gain will continue to be spent on housing.

This housing investment could also be used to do more to reduce opposition to new development. At present it is little compensation for neighbours if new social housing is built as part of a new development. In fact, the author has seen examples where the social housing increases opposition to development. People who will take up the new social housing will be allocated through the local authority waiting list and are unlikely to already be living near the new development.

If councils were encouraged or required to offer new housing to people with a connection to the actual neighbourhood (an area within say 100 yards of the new development), and in a form which could benefit children of local residents this would make new developments more popular. Forms could include either traditional affordable housing, or the “Reduced Rent Homes” for younger people discussed later in this paper, or shared ownership. This would mean that there was more direct benefit for those who are most directly impacted by development.

Recommendation 6: End the UK's broken model of development and the dominance of vertically integrated 'developers' who focus on land assembly. Bring back small builders by requiring some plots on all large new sites to be available to SME builders. Require all options on land to be centrally registered to reveal who controls what land.

As noted above, scarcity of land for housing has led to a model of development which creates a vicious circle:

- Limited supply has created jackpot gains for those who can get planning permission, which in turn has created an industry focused on capturing these gains over quality development
- Limited supply has created volatile land prices which have in turn driven *concentration* and market power in the industry
- Volatile land prices have also made the industry *risky* to invest in, meaning developers have to deliver high returns to attract and retain capital. This means they must press down costs and quality to compete

We should take action to break this cycle at multiple points. The recommendations above have been focused on bringing forward more and cheaper land, and taking away the opportunity to make huge gains from capturing land value uplift. But we should also take action to reduce risk and concentration.

The largest and best-known housing developers are vertically integrated operations which both assemble land and secure planning permission, and also build houses. But they also buy from non-building land intermediaries and typically use third party contractors to actually build the homes.

As noted above, the number of SME builders is down by 80% since the late 1980s. Because land is so expensive and its price so volatile, builders left holding land at the point when the cycle turns can make huge losses, which has driven people out of the industry.

To encourage competition and reverse concentration we should require all large developments to have serviced plots set aside for small and medium-sized builders who are less able to navigate our complex planning system than large players with armies of lawyers and planning QCs.

Where local government owns land, or is engaged in a joint venture in which it has some control, government should also allow builders to pay for these plots of land at the point where they have built and can sell the house. Smaller builders are often cash-constrained and, because they can only afford to buy a certain amount of land at any given time (perhaps just one small site), their output is drastically limited.

As well as being hampered by a complex planning system and credit constraints, another factor which puts small builders at a disadvantage compared to larger rivals is the lack of transparency in the way in which the land market works.

A section above argued that we should require all land options to be centrally registered. One reason to do this is to enable the community to capture more of planning gains.

Another reason is to improve competition. While there is much discussion about "land banking", in reality by the time planning has been granted (and land has become expensive) developers typically want to get in and out as quickly as possible, subject to

keeping prices up. The battle to control land and capture land value uplift typically takes place at the options stage, which is completely opaque. Many land intermediaries who get planning permission do not build homes at all.

With a central register of options, smaller builders would be able to see new opportunities, find out who controls which land, and, if transparency revealed a lack of competition in local areas, further action could be taken to address it.

Recommendation 7: Where councils are meeting the new Delivery Test, give them more powers to counter developers, and create a system felt to be fair.

A poll for the Royal Town Planning institute in 2014 found that 79% of people thought that their community needs a stronger voice in planning, and 59% said that they did not feel they had enough of a say over how their area develops.

As noted above, people who come into contact with the planning system are often left dissatisfied: by the complexity of the process; by the fact that the things they consider most important have no legal weight; and by the fact that developers often successfully overturn decisions made by their elected local councillors on appeal – or push through developments with the threat they will be able to do so.

Make views and landscapes enjoyed by existing residents a legally-allowed planning consideration for the first time

As discussed earlier in this paper, the MHCLG “planning aid” lists things which are not material considerations in planning, including loss of view.

Critics worry that making factors, such as a right to a view, legally permissible would give councils even more reasons and opportunities to say no, and so reduce development sharply. And it is true that the UK planning system is already more discretionary and less plan-like than other countries.

But at present local authorities have little incentive to meet the highest standards or to plan for more housing. By giving councils that are building enough homes to deliver a five-year land supply more power and discretion over sanctioning developments that impact on views and landscapes, we will continue to deliver development while reducing local opposition.

Create a category of ‘Outstanding’ local authorities with adopted long-term (10–15 year) plans and make them exempt from rulings from the Planning Inspectorate

The ability of the Planning Inspectorate to overrule local councils is often controversial, particularly in areas without a five-year land supply where the Presumption in favour of Sustainable Development applies. The presumption means that local councils largely lose control over planning where they fail to plan for enough housing to meet local needs, and is enforced by the Planning Inspectorate.

Rulings of the Inspectorate are most resented where councils are in fact planning for enough housing or have a long-term plan. A number of councils which have argued for a new settlement in order to protect other areas from development have been undermined – by rulings which have allowed the development they didn’t want to go ahead. This fundamentally breaks trust in the system.

Instead, we should create a category of “Outstanding” local authorities which have a 10- to 15-year plan in place and are meeting the Delivery Test, and make their decisions exempt from being overridden by the Planning Inspectorate. By bringing a benefit to residents and councillors where councils plan effectively, we create a further incentive to plan for the long-term.

Reboot Neighbourhood Plans by making them into actual plans, quicker to create, and prevent developers from pre-empting them

Neighbourhood Plans attempt to bring planning closer to the people. The response to them has demonstrated the strong public desire for more control over what is built locally.

Since 2012, more than 2,100 groups have started the neighbourhood planning process, in areas covering nearly 12 million people. There have been more than 360 successful neighbourhood plan referendums, and over 500,000 people have taken the opportunity to vote on those plans.⁵⁸

One difficulty is that so many Neighbourhood Plans have had to be created in a vacuum, because the local council has failed to put an up to date local plan in place. Half of authorities outside London do not have a post-2012 (NPPF) plan in place.

Nonetheless, Neighbourhood Plans do have some bite. In December 2016, the Government stated that in areas with new Neighbourhood Plans which allocate sites for housing, the relevant policies in that plan would not be out-of-date unless less than a three-year housing supply was demonstrated, rather than a five-year supply. By Summer 2016, 2,755 homes had been refused planning permission because of a conflict with a Neighbourhood Plan.⁵⁹

But while many Neighbourhood Plans have been successful, a number of problems are apparent. A study in May 2018, by consultants Lichfields, concluded that less than half of plans actually set out where, or how much, housing would be built. Only 40% contain a housing target and 40% allocate sites, and where there are sites around half are new and half pre-date the Neighbourhood Plan. The same study suggested that, overall, Neighbourhood Plans were not allocating enough housing to meet local needs, not least because in so many cases there was no local plan need number to work from.⁶⁰ In their words:

Our analysis of 330 ‘made’ Neighbourhood Plans shows that local communities are using them to focus on broader local issues – such as green spaces and infrastructure provision – rather than housing; very few plans contain a housing target and/or site allocations. Of those that do make provisions for housing, allocations are rarely ‘new’, often benefiting from an existing allocation or extant permission. We conclude this in part is due to the slow Local Plan process, with a majority of plans coming forward ahead of their respective Local Plans, and thus within a ‘strategic policy vacuum’... the majority of Plans are not focused on housing; 60% do not contain any housing figures or allocations.

To summarise problems and some potential solutions:

- Without a map of preferred or at least non-preferred sites, Neighbourhood Plans do too little to steer where development happens. In future, no Neighbourhood Plan should go to referendum without such a map.
- Neighbourhood Plans take a huge amount of time and volunteer effort to complete, with large numbers taking up to two years. The process should be hugely simplified with target times set for the different stages. MHCLG should create a simplified template to work from.
- The length of time taken to create plans makes it even easier for developers to pre-empt the plans with applications before the Neighbourhood Plan is made. As well as shortening the time taken, the Government should increase the weight given to published Neighbourhood Plans.
- Neighbourhood Plans are hugely constrained by which sites developers have already said they wish to bring forward. Often there is no choice at all. To create real choice, Neighbourhood Plans should be able to flag sites to be brought forward under CPO by the local authority.

Solutions: part two

Increasing home ownership by redirecting demand away from housing as an investment asset – and towards more productive assets

Defining the problem

- 1. Improvements in supply will not be enough on their own to restore homeownership any time soon – rising demand for housing as an investment asset (to rent out) has increased prices and pushed down homeownership.**

We need to halt and reverse a dramatic decline in homeownership seen since 2003. Increasing the supply of new housing will help reduce the growth in real house prices over time. But while improved supply is vitally important, it is only likely to have significant effects over the very long-term.

Kate Barker's review found that reducing UK trend price growth to the European average would require roughly a doubling of housing production. Work by Geoff Meen at the University of Reading suggests that even with a permanent 50% increase in supply over 20 years, "affordability (the price/earnings ratio) might improve by approximately 1.3 points by the final year (compared with a price/earnings ratio of 10.5 in the base). Therefore, arguably, large increases in construction produce modest improvements in affordability."

Given the scale of the decline in ownership, from 71% to 63%, if we want to reverse falling homeownership any time soon we will need to take actions that go beyond simply increasing supply and address the distribution of ownership. We need to look at the balance of the private-rented and private owner-occupied sectors. Since the invention of the buy-to-let mortgage in 1996 the growth of the private rented sector has been rapid. Between 2005 and 2016 the growth of letting was so rapid that the number of owner-occupied properties fell by 300,000, even as the number of private properties grew by 1.8 million.

If we had simply kept the ratio of privately-rented to privately-owned homes the same between 2000 and 2015, we would have ended up with 2.2 million more homes in owner-occupation – a bigger impact on homeownership than a doubling of new supply over the same period would have had.

Figure 19: Dwelling stock: by tenure, England⁶¹

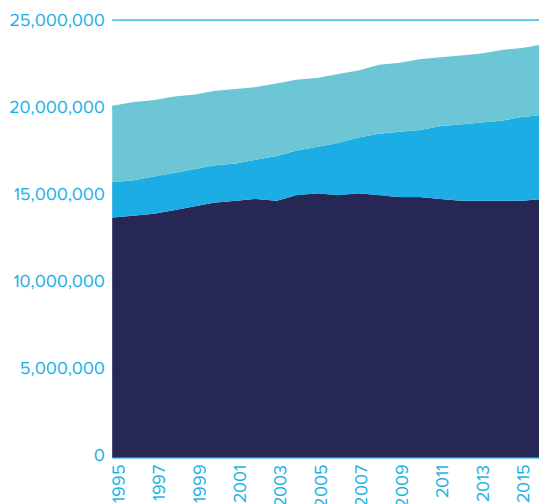
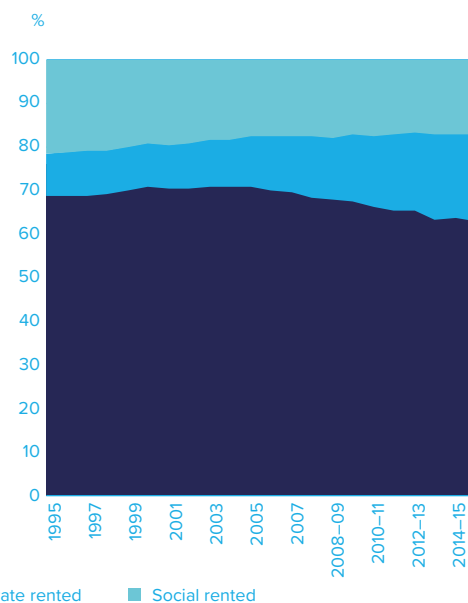


Figure 20: Population % by tenure, England⁶²



2. Subsidies for homeownership need to be more tightly targeted to avoid stoking investment demand and reducing ownership.

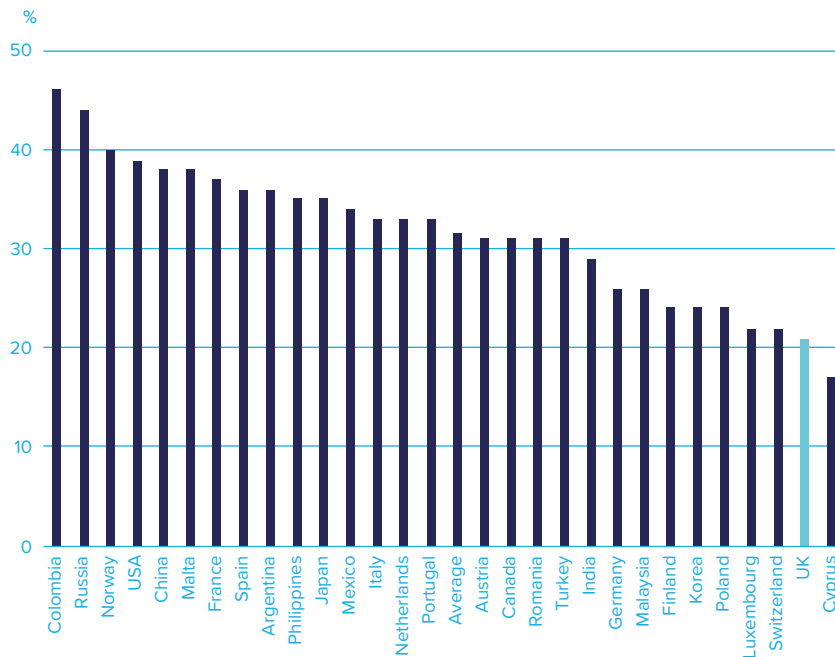
Where supply is completely fixed (say Van Gogh paintings) increased demand for a good only serves to increase the price. “Investment” in such goods is not really productive at all, but purely a speculative bet on rising prices. Increasing the demand for something where supply is constrained (development land and housing) will tend to bid up the price more than increase supply.

Subsidies which support the ownership of multiple properties – increasing demand and prices – are actively unhelpful, as such policies subsidise the *reduction* of homeownership.

The growth of the private rented sector in part reflects its strongly tax-advantaged status. Despite some reforms in the Budget and Autumn Statement 2015, advantages like Mortgage Interest Relief for landlords and the ability of landlords to avoid paying Capital Gains Tax on residential property (by shifting their primary residence) favour buy-to-let over other investments which might have more positive impacts on productivity.

The overall tax system strongly favours investment in rental property. International research conducted by Taxand, the world’s largest independent organisation of tax advisors to multinational businesses, has shown that the UK is one of the cheapest countries for investors involved in residential rental investments. Looking at the total tax on renting property in 29 different countries in 2011, they concluded that the UK’s overall tax rate for rental investments is second lowest.⁶³

Figure 21: Overall tax rate on renting residential property⁶⁴



3. Encouraging people to invest in housing might also be having a negative effect on productivity and financial stability.

As well as a rationale in increasing homeownership and improving fairness, tax reforms in this area might also have secondary benefits for productivity and financial stability

In terms of financial stability, the buy-to-let sector has been identified as a potential risk to financial stability by the Bank of England (2015) with new powers to regulate lending terms granted in 2016.

In terms of productivity, the ratio of residential mortgage lending to investment in non-financial firms is much higher in the UK than other countries like Germany. Speculatively, tax changes which reduced demand for housing as an investment asset (rather than a place to live) might see lending flow to more productive uses in businesses.

The UK has a relatively low capital stock which is then reflected in low uptake of productivity-enhancing technologies like automation. A reform which channelled investment from residential property to business investment could potentially help to address this.

Figure 22: Credit stock, Germany⁶⁵

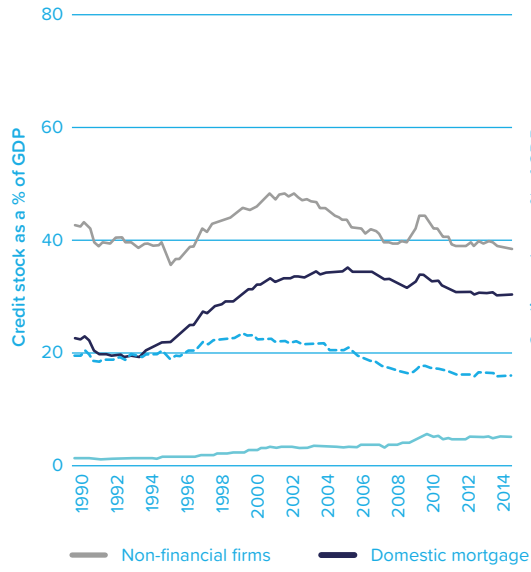


Figure 23: Credit stock, UK

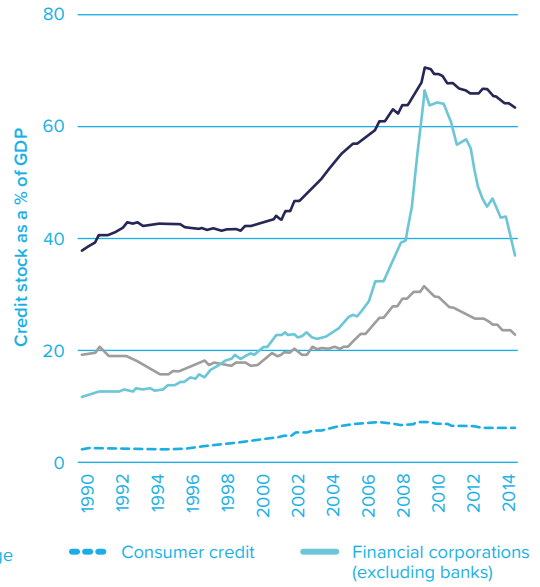


Figure 24: Capital to output ratio⁶⁶

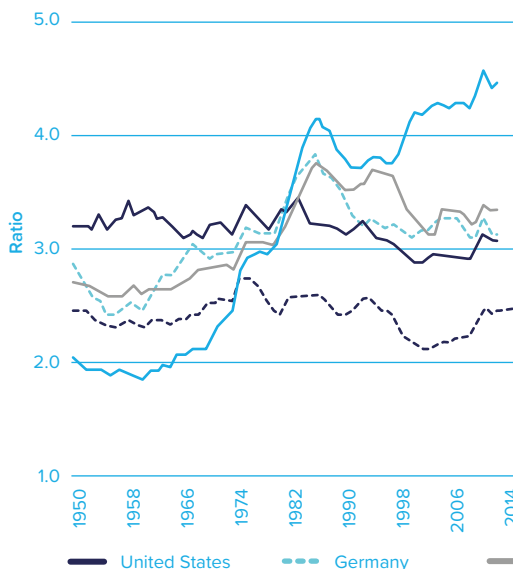
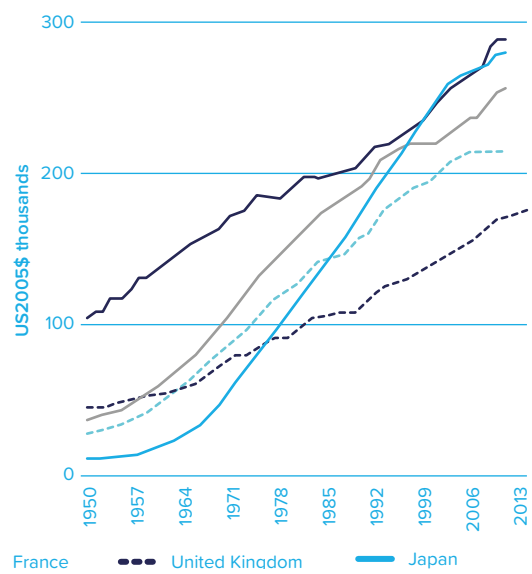


Figure 25: Capital to labour ratio



4. Reforms in recent years seem unlikely to slow the rapid growth of the private rented sector.

Two possible arguments against going further in reforming the tax treatment of rented property are (a) that changes to date have solved the problem, or (b) we are only half way through the reforms to mortgage interest and changes to SDLT are still relatively recent, so we should “wait and see”.

Evidence so far suggests that the announced (and part implemented) restriction of mortgage interest has made little difference to levels of mortgage lending to buy-to-let. At the end of 2017, buy-to-let lending remained substantially above 2010 levels, and indeed above the late 2007 peak. Buy-to-let lending remains relatively large compared to lending to first-time buyers.

Figure 26: Buy-to-let as % of all mortgages including remortgages

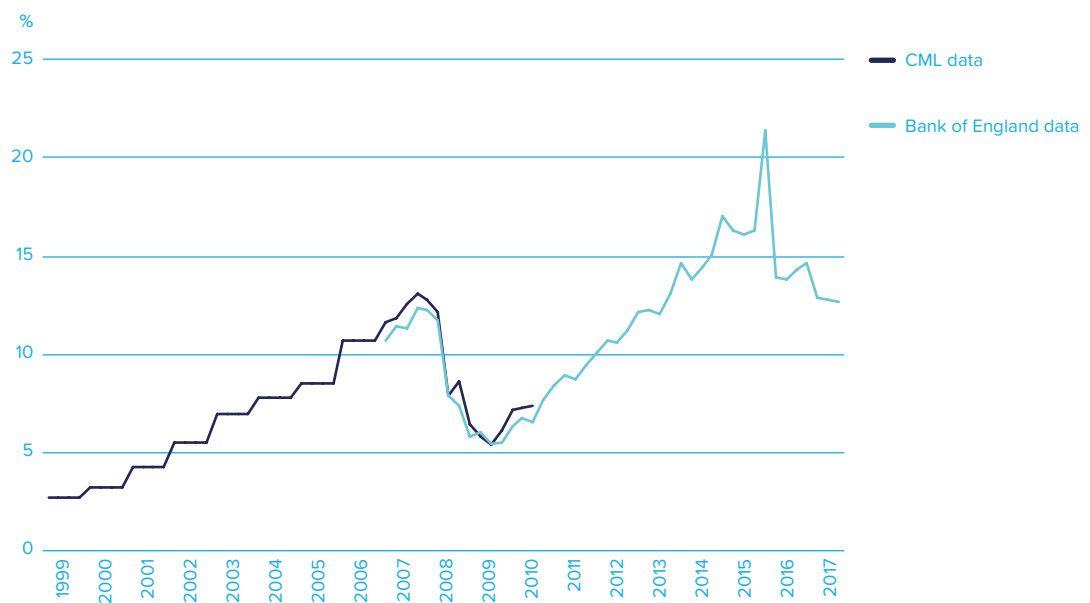
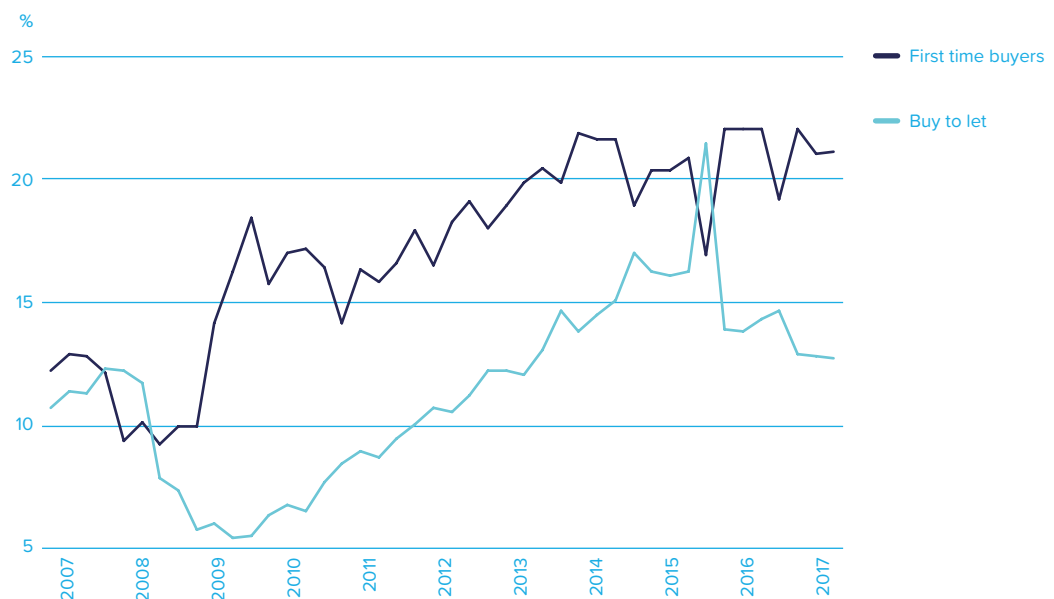


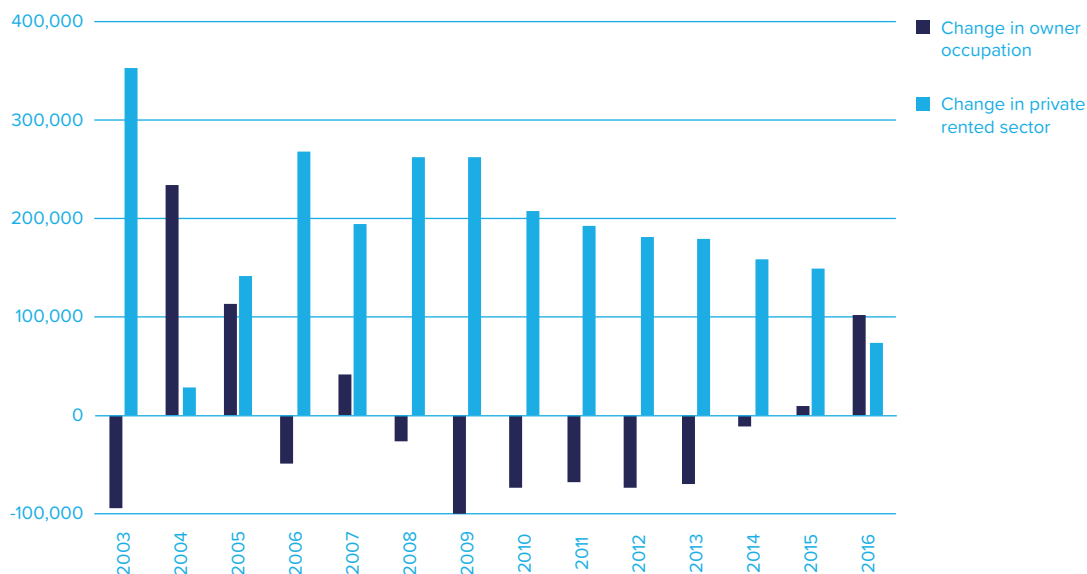
Figure 27: Proportion of mortgage loans



Of course, buy-to-let mortgages are only one measure of investment in rented property. Many landlords are cash buyers and not captured in the mortgage lending figures above.

The combination of limits on mortgage interest relief and reforms to Stamp Duty in 2016 may have had some effect, as 2016 was the first year since 2005 to see a substantial increase in the number of owner-occupied properties. Perhaps relatedly, it also saw relatively slower (but still strong) growth in the private rented sector. Overall, it was the first year since 2003 in which ownership rates rose rather than fell.

Figure 28: Change in number of dwellings, England



At the time of the 2015 announcement there were suggestions that rents could increase as a result of a dramatic decline in the number of rented properties. The Guardian⁶⁷ reported that:

Genevieve Moore, partner at accountants Blick Rothenberg, said the raid on tax breaks for landlords “could see a flood of buy-to-lets being sold as the squeezed middle bow out of rental market”. But Britain’s most controversial buy-to-let landlord, Fergus Wilson, whose property empire at one point stretched to more than 1,000 homes, said: “It will drive rents upwards to compensate.”

In fact, since the Summer of 2015 rental price growth has declined from 2.5% a year to around 1% in April 2018, while the number of rented properties has continued to grow, albeit a little more slowly.

Therefore the overall evidence from the 2015 and 2016 reforms is that tax reforms can have a positive impact on homeownership, but that measures taken so far are not large enough to produce a step change in ownership.

5. Sustained high house price inflation over decades has created self-fulfilling high inflation expectations, driving investment demand.

The UK has a vicious cycle of high inflation expectations for residential property and strongly growing demand for property as a speculative investment based on those expectations. If people think prices will always rise in real terms it makes sense to invest now, stoking demand and prices further.

These high expectations are reflected in everyday conversation and ideas of “getting on the property ladder” and also in instruments like interest-only mortgages, which are predicated on the expectation of capital appreciation.

As with inflation generally, property price inflation expectations can be self-fulfilling. General inflation expectations in the UK shifted down during the 1990s – helped by a sharp fall in inflation in the early 1990s and the transition to operational independence for the Bank of England – however, property price inflation and property price inflation expectations have not followed suit.

Recommendations

Recommendation 8: Focus tax support on homeownership, not the private rented sector or multiple ownership.

End Mortgage Interest Relief for new rented properties

Although MIRAS (Mortgage Interest Relief At Source) was abolished in stages for owner-occupiers from the late 1980s onwards, mortgage interest relief remains for renting out residential property. The rationale for abolishing relief for landlords is equally strong – it simply increases demand and prices. Individuals also cannot claim tax relief on the financing of any of their other investments, only on residential property.⁶⁸

In the Summer Budget 2015, the then Chancellor restricted relief to the basic rate, but decided not to fully abolish it. One risk in going further for existing landlords would be that it would push some highly-g geared landlords into bankruptcy, and lead to some landlords paying more tax than they were earning from letting. The key issue is that the reforms applied to people who had made their plans on the basis of gaining the relief.

One possible way to go further would be to grandfather the mortgage interest relief for existing rented properties – but fully abolish it for new landlords or new properties let out after a certain date. This would not raise significant revenue for the Treasury, but would equalise treatment with owner occupiers and other investments. It could encourage investors to look beyond residential investment when considering new investments.

HM Treasury could also look again at the tax treatment of wear and tear. While the new post-2015 system (based on actually incurred costs) is fairer the previous system (based on a percentage of the rental value), the system still means landlords can gain a tax relief on their furnishings which owner-occupiers cannot. Ministers could also look again at the generosity of the relief. They could either reduce the rate or cap the total that can be claimed to prevent abuse.

Taken together, the reforms to mortgage interest rate relief and wear and tear allowances announced in Summer Budget 2015 were scored as raising £835 million a year by 2020/21. Any revenues raised from further reforms could be recycled to reduce other taxes – either on investment in other assets or further cuts to transaction taxes like Stamp Duty Land Tax.

Reform Capital Gains Tax for new rented properties

The most significant subsidy for homeownership (intended to support owner occupation, not landlords) is the exemption of the primary residence from Capital Gains Tax. If this subsidy is tightly targeted it will help boost home ownership. If it is not tightly targeted and benefits people owning multiple properties and letting them out, it will reduce homeownership.

How CGT on rented property works

Capital gains do not apply to people's primary residence if they have lived in it as their main home for all the time they have owned it. To simplify slightly, if you have rented out a property you own, you pay Capital Gains Tax on the difference between how much you paid for it and how much you sell it for, minus the cost of improvements you have made to it, minus the Stamp Duty and professional fees involved in buying and selling it, and minus Private Residence Relief.

Private Residence Relief reduces the chargeable gain which applies to landlords for:

- the years it was their main home
- the last 18 months you owned the home – even if was not your main home – and the first 12 months if the house was being renovated.

You can then claim Letting Relief. You get the lowest of the following:

- the same amount you got in Private Residence Relief
- £40,000
- the same amount as the chargeable gain you made from letting your home

Clearly it is reasonable that if you live in a house, you should get relief as other owner-occupiers do, even if you later let it out.

But the effect of these reliefs is that landlords will also receive at least 18 months' worth of Capital Gains Tax free and at least a further £40,000 of gains tax-free. Other capital gains do not enjoy these reliefs.

This is on top of the £11,700 Annual Exempt Amount which each partner in a couple is entitled to. Some people also then reduce the burden further by using a pension contribution or investment vehicle.

According to HM Treasury, the Private Residence Relief reduces the tax take from capital gains on housing by £27.8 billion per year⁶⁹ (this is the single biggest tax relief, bigger even than that for pensions). In total CGT is forecast to raise £7.8 billion in total in the same year (2017/18), and £8.8 billion the year after.⁷⁰

Although HM Treasury does not publish estimates of how much CGT is raised from property transactions, the OBR reports that around three quarters of CGT is raised on sales of financial rather than property assets. This implies around CGT on property is raising between £2 and £2.2 billion.

To give a sense of the scale of the relief to non-owner occupiers, around 25% of private properties are *occupied* as non-primary residences. However, CGT is raising as much as it would if around 7.2–7.9% were non-primary residences and there were no reliefs for landlords. Or, in other words, a fraction under a third of what it would raise if reliefs for owner occupation were actually in proportion to the percentage of properties that are owner occupied.

What CGT statistics there are show that chargeable gains on residential land and buildings (UK and abroad) account for a much smaller proportion of the disposal value of the asset (32% in 2014/15) than financial assets (51%) or commercial and agricultural property (44% and 66% respectively). Residential investment remains CGT advantaged.⁷¹

Therefore one reform that the Government could consider would be to look again at the rules which govern qualification for relief on the primary residence. This was tightened somewhat in 2013 and could be tightened further.

There are a number of options to focus CGT on homeownership:

- Landlords can currently gain relief on the final 18-months free of Capital Gains Tax (whether you lived there or not). This 18-month free period was originally intended to be just one year, before 1980, and then extended to two years, and then to 36 months in 1991, as a result of the recession. This could be taken back to the original limit of one year, or down to zero. When the previous change from 36 free months to 18 months was announced, the policy costing suggested that this tightening of policy raised an extra £105 million a year in 2018/19, and would have raised £190 million without avoidance effects. Again, any revenues raised from reform could be used to cut taxes on other forms of investment.
- Lettings relief could be abolished altogether or the £40,000 minimum tax-free amount reduced.
- Alternatively, qualification for the relief could be limited to homes which have been owner-occupied for a certain proportion of the time the owner has owned the property. There are multiple possible variations. In Germany, properties have to have been owned for 10 years to be exempt; and in the US to have been owner-occupied for at least three of the last five years.⁷²
- Alternatively, you could simply raise the *rate* of CGT on the chargeable amount (currently 18% or 28%). A more complex variant would be to do this on particularly large “windfall” type gains.
- To make any these more politically palatable, it could be attractive to apply the changes on a grandfathered basis – e.g. only properties which are let out after a certain date would qualify for the reformed tax treatment. This would require HMRC to ask people for information on which properties they own as part of self-assessment if they wanted to claim the grandfathered relief, rather than simply a total amount of rental income.
- As with the current CGT regime there would need to be a number of exemptions – e.g. the tax currently gives tax relief to those who only own one home for up to three years for any reason or an indefinite period if you are working abroad.

The revenues raised by these tax reforms could be to cut other taxes and incentivise investment to flow instead towards more productive investments. This could include cutting Stamp Duty on shares, building on measures like Enterprise Investment Scheme to reduce taxes on investment in businesses, or reducing other transaction taxes like Stamp Duty Land Tax.

In areas where affordability is worst, give councils power to limit overseas purchases of new homes to limit demand for homes as a speculative investment asset

There has been media commentary on the supposed phenomenon of “buy to leave” investment in London. No official statistics are available on foreign ownership or purchases of property. Independent statistics suggest that foreign purchases of property are a relatively small part of the picture for the country as a whole but can be significant in some places where affordability is worst.

A report by academics at the University of York⁷³ based on a sample of Land Registry data suggested that an overseas person or entity owned 13% of London’s new build property sold during the two-year study period of 2014–2016.

Foreign ownership was concentrated in central London and the areas with the most rapid growth in demand, and in some London boroughs was accounting for a quarter of all new sales, so clearly adding significantly to demand. While overseas buyers were more likely to buy more expensive properties than UK buyers, half of all foreign purchases in London as a whole were in the price range £200,000–£500,000, suggesting that foreign demand does not just affect the top end of the market.

Table 5: New Build Sales in London, 2014–2016⁷⁴

Highest	Overseas sales as % all sales	Lowest	Overseas sales as % all sales
City of London	40.8	Richmond Upon Thames	4.2
City of Westminster	37.9	Hillingdon	3.7
Kensington and Chelsea	32.2	Haringey	3.3
Southwark	25.6	Kingston Upon Thames	2.6
Newham	20.3	Redbridge	2.6
Hammersmith and Fulham	18.8	Bromley	2.2
Merton	18.8	Waltham Forest	1.7
Hackney	18.4	Bexley	1.4
Lewisham	17.1	Havering	0
Tower Hamlets	16.2	Sutton	0

Evidence on whether foreign-owned homes were under-occupied is less certain. Based on matching transactions data to Census data relating to properties that had “no usual residents” on Census night, the York academics concluded that “overseas owners are more likely to hold property that is under-used, 42.3 percent compared to 5.6 percent of UK owners.”

Clearly there are arguments in favour and against restrictions. Allowing free purchase of UK property arguably makes the UK a more attractive place to do business. However, with supply constrained, demand from the rest of the globe is likely to worsen affordability and may mean scarce housing being under-occupied and underused.

Other countries – including some highly open economies – have adopted a range of approaches to managing foreign investment demand for property. The UK could potentially replicate these. EU rules on free movement of capital currently restrict the ability of member states to have restrictions – including on non-EEA nationals – although some member states like Denmark have some bureaucratic requirements on non-nationals, who have to register centrally in order to get permission to buy.

Outside the EU, countries have a number of stronger restrictions:

Controls on foreign property ownership around the world

Taxes

In **Canada**, an additional tax of 15% is levied on all home buyers in Metropolitan Vancouver who are not Canadian citizens or permanent residents.

In **Australia**, New South Wales, Victoria and Queensland charge foreign buyers additional stamp duty of between 3% and 7%.

Singapore charges foreign buyers an additional 15% in stamp duty.⁷⁵ There are restrictions on foreigners' ability to buy different types of properties, e.g. condominiums and 'landed' houses – in some cases approval from the Government must be sought.

Hong Kong also requires foreign buyers to pay an additional 15% in stamp duty.

New Zealand levies a tax on second homes bought and sold within two years. Foreign buyers also have to apply for a government ID number for tax purposes.

Quotas and permits

In **Switzerland**, "persons abroad" are required to obtain a permit from the appropriate cantonal and federal authorities before buying real estate. The number of properties available to non-residents are limited by the Swiss government – currently to 1,440 permits a year.

China allows foreigners to buy as many properties as they wish but these purchases are subject to local house purchase limits. For example, in Shanghai people without Shanghai household registration can only buy one property.

India does not allow foreign nationals living outside India to acquire 'any immovable property' unless by way of inheritance.

If not restricted by EU free movement of capital rules, the UK could impose either taxes or quotas to limit foreign investment demand in areas where there is a significant under-supply.

These could either be designed by central government, or local government could be given the discretion to impose charges or quotas according to local preferences.

Recommendation 9: Reset inflation expectations by setting a target to increase affordability, backed up by a new joint taskforce between the Bank of England and HM Treasury.

As noted above, decades of the highest real property price inflation of any OECD country have created self-reinforcing inflation expectations. As with inflation generally, *expectations* that inflation will be high lead people to behave in ways that cause it to be high.

Until relatively recently real property price increases have been celebrated by sections of the media, and sometimes seen as a good thing by policymakers.

The Government should reset inflation expectations for house and land prices by announcing a goal to control house price growth.

- One possible goal would be for house prices to grow more slowly than incomes over the long-term, improving real affordability and supporting homeownership.
- A more demanding target would be to aim for prices to grow only with inflation (real terms stability).
- A more demanding target still would be to aim for property prices to be flat in nominal terms (becoming cheaper in real terms).

Given the UK's recent history of prices rising faster than incomes, the first of these might be thought to be a more realistic goal, although the UK is currently in the later phases of its house price cycle, and a more demanding target may be achievable in the coming years.

Any goal would need a powerful mechanism to back it up, as with the operational independence of the Bank of England Monetary Policy Committee (MPC). However, there is a question about how an equivalent housing function would interact with the Bank of England's wider monetary policy mandate.

The Government should therefore create a joint housing inflation taskforce operated between the Bank of England and HM Treasury.

Clearly all decisions involving taxation would ultimately remain with HM Treasury and elected politicians. However, the taskforce's remit could include:

- Powers over Loan to Value and Loan to Income mortgage regulation.
- Powers to recommend changes in tax policy, including the scope of CGT and Private Residence Relief, Stamp Duty Land Tax, mortgage interest relief, and even new taxes like a Land Value Tax.
- Powers to make recommendations about enhancing supply on a comply-or-explain basis.

Recommendation 10: Providing help now – Homes for Younger People (HYP).

Improving supply and shifting demand are both crucial long-term reforms. But to meet immediate needs, we need a new offer for younger working people to make ownership and renting more affordable.

In recent years, low interest rates have made servicing a mortgage cheap, while driving up house prices. Many young people feel they are on a cruel treadmill, unable to save up a deposit because they are paying high rents to live in places where good jobs can be found.

The proposal in this paper – “Homes for Younger People” (HYP) – would provide more immediate help for younger working people at two different income ranges.

First, for higher earners, HYP Deposit Loans, providing more generous government support for those who can afford a repayment mortgage, but can't save up for a deposit. This would be like Help to Buy, without the purchaser providing a deposit. Only the Government would be providing equity. Ministers could either stick with the same equity contribution as in the current Help to Buy Equity Loan (20% outside London, 40% inside) or look to extend its contribution in high-demand areas outside Greater London.

Second, providing (on a large scale) a new form of cheap rented housing – HYP Reduced Rent Homes – exclusively for younger people who are in work, enabling them to build up towards ownership or shared ownership.

This would be financed in part by the transfer of the remaining LA stock to housebuilding associations in the housing association sector, and partly by capturing more of the gains from development for the community.

Aiming to build half a million HYP Reduced Rent Homes, and provide half a million HYP Deposit Loans over the next 10 years, would provide direct benefits to younger people – the people who are losing out in today's housing market. It would help people off the rent treadmill, get them a foot on the housing ladder, and restore the opportunity of home ownership to a new generation. The section below explores both aspects of Homes for Younger People in more detail.

Homes for Younger People: Deposit loans

The period since the financial crisis has seen increasingly strict requirements on mortgage lending.

One effect of this has been to limit the number of mortgage loans issued to first-time buyers. Other effects have been to reduce the loan to value ratio of the mortgages that were issued, and increase the cost of higher loan-to-value mortgages of the kind first-time buyers typically use relative to mortgages for people with more equity.

Economist Ian Mulhern has suggested that if mortgage issuance had remained at its pre-recession rate there would have been around a million more first-time buyers getting mortgages in the period 2008–2013 alone.⁷⁶

Figure 29: Number of new loans to first-time buyers

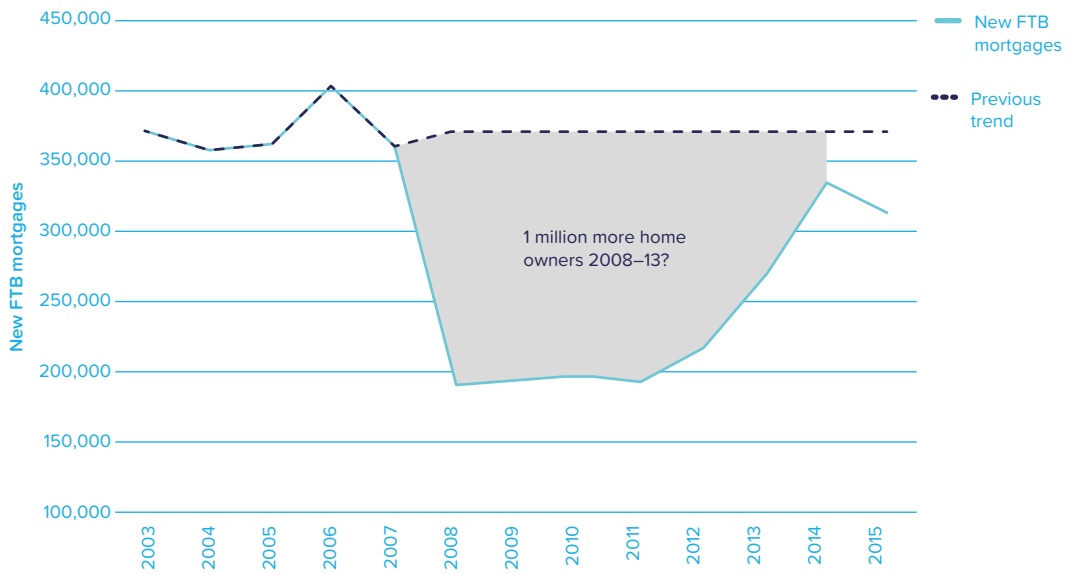
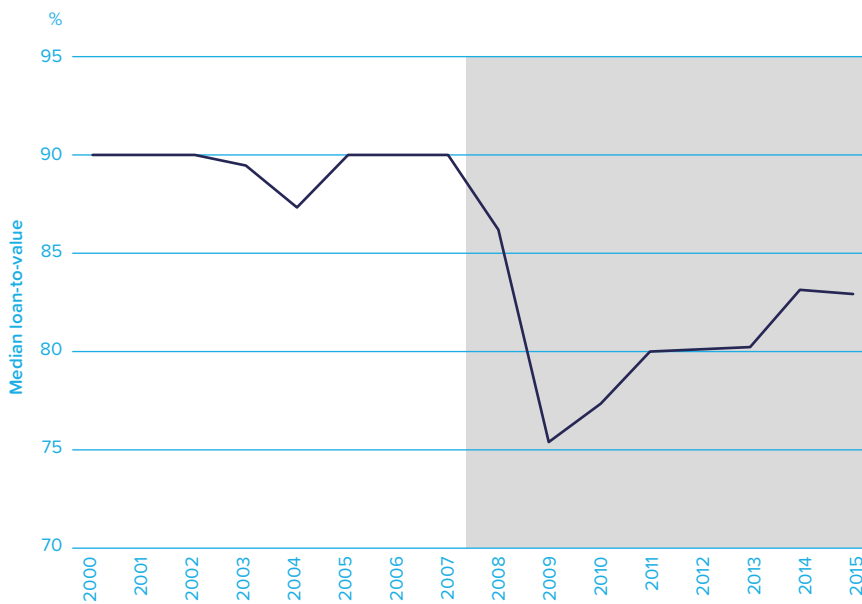


Figure 30: Median LTV for first-time buyers

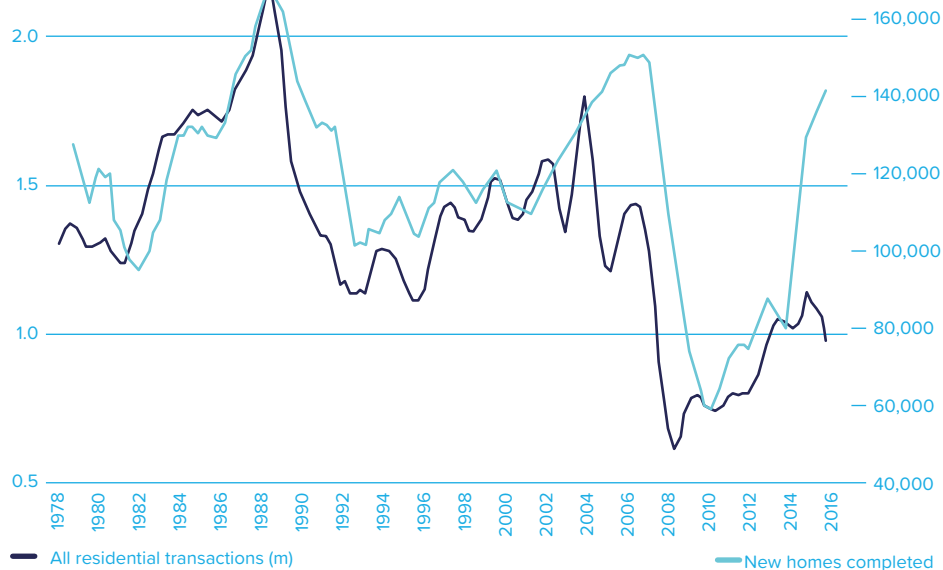


Objections to Help to Buy have focused on its role in stimulating demand in a market where supply is constrained and demand has been high.

This is a reasonable concern and any demand-side intervention should be extremely wary of further propping up prices. That is why this paper suggests matching the creation of new deposit loans with measures which would reduce demand for housing as an investment asset – the overall effect would be to *redistribute* housing ownership from investors in multiple properties to home ownership among younger people, without a stimulating effect on prices overall.

On the other hand, there is a case that Help to Buy, (or at least the Equity Loans part of Help to Buy) has also supported supply. The number of new homes being completed has diverged from the number of housing transactions, which it usually tracks.

Figure 31: Number of homes (England)



The number of Help to Buy Equity Loans agreed has steadily increased in recent years from just under 32,000 in 2015, to around 38,000 in 2016 to over 46,000 in 2017.⁷⁷ So aiming to deliver 500,000 HYP Deposit Loans over the next decade feels realistic.

Homes for Young People: Reduced Rent Homes

There are a large number of people who might be able to save up a deposit over time, if only their existing rental costs were lower.

Groups of people who may have been helped by social housing in earlier generations are now unlikely to qualify for social housing.

A combination of a smaller stock of social housing, a rising population, much higher rental costs and house prices, and changes to the way social housing was allocated after 1977 have all combined to mean that fewer people in work are offered the chance to get social housing. Council housing is no longer playing the role it used to in helping large numbers of working people on lower incomes to get on and own their own home. It has become more like a safety net and less like a springboard.

Figure 32: Social tenants in work, all ages⁷⁸

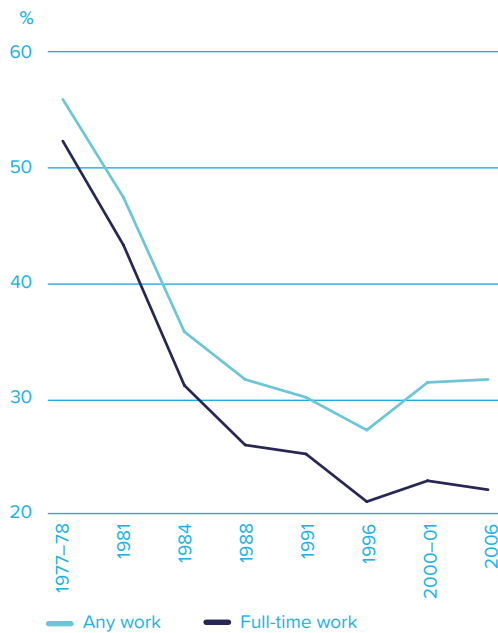
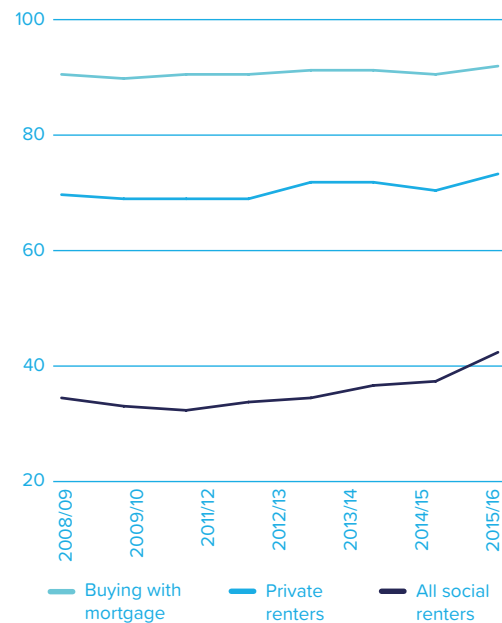


Figure 33: Employment rate of household reference person by tenure⁷⁹



The final proposal in this paper, therefore, is for new form of cheap rented housing – HYP Reduced Rent Homes – exclusively for younger people who are in work, enabling them to build up towards ownership or shared ownership.

An HYP Reduced Rent Home would offer working people under the age of 40 who do not own a home of their own a chance to rent for up to 10 years at a rent substantially discounted from the market rent (a 10% to 20% discount). Obviously the larger the discount the greater the cost or the fewer homes that could be provided. The conditions of the tenancy would be similar to a longer-term tenancy in the private sector.

If people are still in the same property after 10 years, they would have to either buy or move, or pay the full market rent. The Government could allow housing associations to offer Shared Ownership to people after a period in a HYP Reduced Rent Home or even support them to do so. The idea could also be combined with some kind of right to buy.

After tenants moved out, the home would be offered to another younger family, or if they bought that property the revenues would be recycled to replace it. The stock of HYP homes would steadily grow over time.

Housing associations would be the main providers. A large number of associations already build and let homes for market rents in order to cross subsidise their social purposes. HYP homes would sit in between social tenancies and market rent tenancies.

HYP allocations would be completely separate to the local authority allocations system for traditional social housing and could be handled either centrally by local authorities or by housing associations and other providers themselves.

To avoid HYP Reduced Rent Homes simply merging over time into the main social housing system, tenants would have to be in work to be eligible, and would remain eligible for an HYP home at all except the highest income levels. Central government could either set an upper threshold or leave it to local authorities or housing associations to judge on the basis of local circumstances. There would be no loss of eligibility if people's income subsequently increased.

To build 500,000 HYP Reduced Rent homes over the next 10 years would mean building 50,000 a year. With a unit cost of £20,000 of public subsidy leveraged by housing associations (the same as the 2015–18 affordable homes programme) the programme would cost £1 billion a year.

To put this into context, on average each year during the period 2008 to 2017 around one in five new general needs affordable lettings (or 58,000 households a year) have been let to people in full time work.⁸⁰ An additional 50,000 homes a year for reduced rent for working households would be substantial in this context.

There are a number of different ways in which this could be financed. In theory, government could either add to capital budgets, or redirect existing capital budgets for shared ownership and affordable rental housing.

Capturing more of the gains from development for the community, in the ways described above, could provide part of the funding.

In 2016–17, Section 106 planning obligations with an estimated value of £5.1 billion were agreed, including an estimated £4 billion in affordable housing contributions, and the Community Infrastructure Levy (CIL) raised a further £0.9 billion. While this paper argues that much more could be raised by capturing planning gain, the amount raised would not have to increase hugely to fund HYP Reduced Rent homes.

But we might also look to fund HYP homes by seeking ways to release the significant financial capacity held within the remaining local authority stock. Analysis from housing consultants Philip Callan Associates (PCA) suggests that unlocking the capacity of the remaining local authority stock in England – underpinned by the net rental income stream of these assets – would generate £27 billion of borrowing power (see box below). That's enough to go a long way towards financing Reduced Rent Homes over the longer term.

This could be achieved by a number of routes, including lifting the borrowing cap, the voluntary transfer of the remaining local authority stock to housing associations, through to innovative joint venture partnerships between stock owning local authorities and housing associations. Many have called on government to lift the borrowing cap and free local authorities to use the £27 billion capacity to build more homes. There are numerous arguments for and against this action but the fundamental hurdle is that it would count as public borrowing.

Many local authorities of differing political persuasions have transferred their homes to new or existing associations over the last 30 years. Through such transfers these homes have been removed from the constraints of government borrowing and competing claims for investment from other government departments.

Government could assist local authorities to consider the option of transferring their homes to a new or existing association by providing revenue grants to undertake an options appraisal and then financing work to support a transfer when this option was selected. The overall cost of such support would be minimal compared to the benefit of the moving the future borrowing of the local authority homes outside of the public sector.

How much extra investment could the local authority stock support?

- 168 authorities retain their housing stock
- c.40 metropolitan authorities/London Boroughs with strong demand
- Collectively own and manage some 1.6m homes
- Collective debt of £29bn at point of settlement
- Estimated debt servicing costs of around £1bn
- Income of £7.2bn in 2016/17
- Estimated management, maintenance and major repairs spend of £3,200 per unit pa
- Average annual surplus of £966m over first five years
- **This would support around £27bn of borrowing capacity**
- With efficiencies potentially more – reducing management and maintenance costs to £3,000 per unit pa would support £36.6bn of borrowing

PCA argue that government should be open to the creation of a hybrid model that delivers the financial freedoms of stock transfer but maintains a high level of enduring involvement by local authorities. They propose the creation of Local Authority and Housing Association Joint ventures where each holds 50% of the shares. The Joint Venture would lead on the development of new homes throughout the borough, providing subsidised rented homes and help to first-time buyers to gain a share in their home. The Joint Venture would be structured to ensure that it sat outwith the public sector for financial accounting purposes.

The PCA model is a voluntary one. Alternatively, in the absence of agreement, this paper suggests legislation to compel the local authorities which continue to hold stock to transfer it to a developing housing association. Tenants should be given a choice in a ballot over which housing association they would prefer to go to with government organising a competitive process in different areas. The Government might want to encourage the creation of one or more providers to act as a backstop and ensure there is always competition. In return for the receipt of the local authority stock in a stock transfer, the housing association would have to enter into an agreement to build an agreed number of Reduced Rent Homes.

Annex: housing, migration and ethnicity

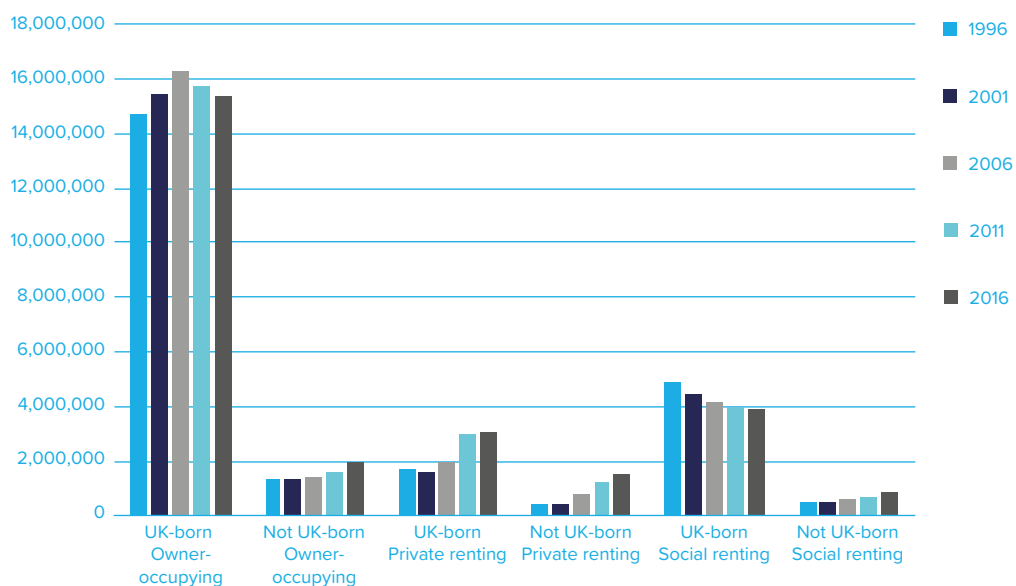
The fall in homeownership rates and the rise in private renting are seen across all regions, among all ethnic groups and both UK and non-UK born people. But there are variations between different ethnic groups with non-white people seeing sharper declines in home ownership.

Since 2001, the proportion of white and UK-born people who are private renters has doubled. The fall in owner occupation among white residents appears to have started a little later than other groups (probably reflecting the age profile of different ethnic groups) but is in line with the national average reduction over the last decade.

Some have argued that falling homeownership should not be seen as a problem because it reflects more temporary migration – that people who were not born in the UK and may only be here for a time are more likely to want to rent. It is true that a large part of the increase in the number of people who are renting is accounted for by people who were not born in the UK. But the majority of the increase (59% between 2006 to 2016) is still accounted for by people who were born in the UK, and the number and proportion of UK-born people who own their own home has been falling sharply since the early 2000s.⁸¹

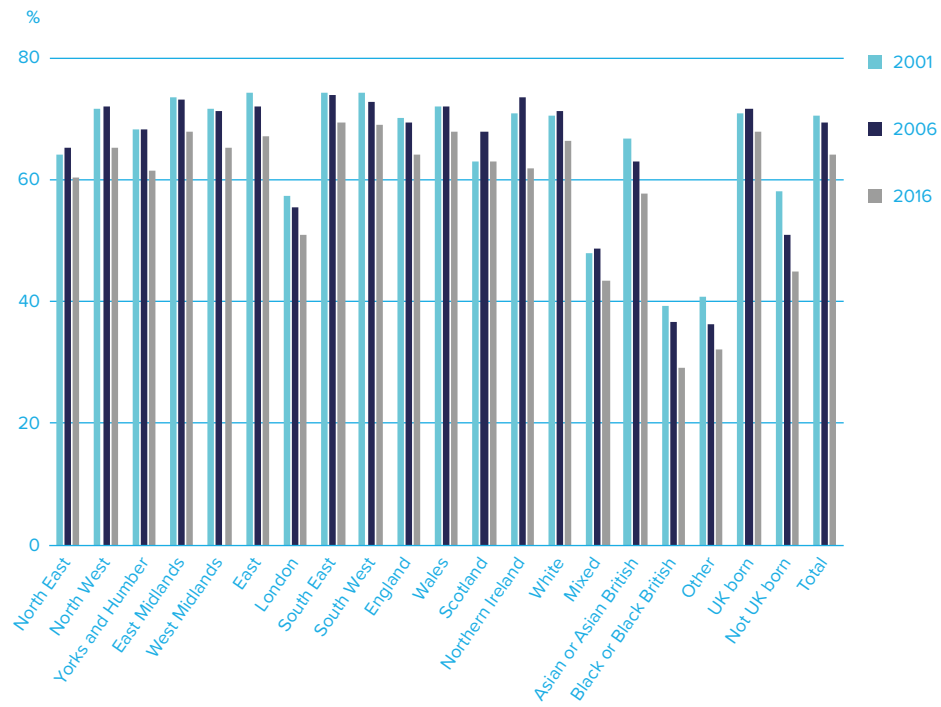
The English Housing Survey shows that the proportion of private renters who are expected to buy was unchanged (at around 60%) over the last decade, suggesting that there has not been a shift in preferences of private renters, underlining that the fall in ownership does not reflect a change in preferences.

Figure 34: Tenure breakdown of UK and non-UK born⁸²



While there are variations by region and ethnicity, the fall in homeownership rates and rise in private renting is seen across every single region, all ethnic groups and both UK and non-UK born people. Homeownership rates of people in Scotland, Wales, the North and among White British people seem to have peaked and started falling slightly later than for other groups. And the fall among Black British people is marginally larger, compounding an existing ownership gap. But the reduction in ownership is clear across all groups.

Figure 35: Owner occupation rate⁸³



Annex: the role social housing does play, and could play in our housing

Social housing has an important part to play in our housing market but simply spending more on social housing as it exists today is unlikely to be the most effective way to boost supply

- The UK has one of the highest proportions of social housing of any EU country, with 18.3% of people living in social housing in the UK compared to 10.5% in the euro zone. If having a large stock of social housing was the only determinant of a healthy housing market, Britain would be fine.
- Council housing has helped many families, including the author's own, and there will always be a large number of people for whom sub-market rents and very secure tenancies are the right thing. Nor should we forget that an important subset of social housing is sheltered housing for the most vulnerable people in society.
- However, if we spend more on social housing but do not increase the supply of land coming forward for development then our spending will not increase the overall supply of housing – social housing will simply displace private housing.
- The gross number of homes built in Britain has declined sharply since the late 1960s, and papers on the housing crisis often present a graph showing how many homes councils built in the 1960s and argue that the UK can only return to higher rates of building overall if it returns to the mass construction of council housing.
- There are several things to say about this. First, we can see there have been other periods of rapid housing growth, like the 1930s, during which the social sector played a relatively limited role. Secondly, looking at the net supply is a more relevant measure than the gross number, as large numbers of the new homes built in the 1930s and 1960s were simply replacing other homes destroyed in slum clearance (so net supply was lower than construction). In recent years, growing conversions of existing buildings have taken supply above new construction.
- Looking at net supply makes the change in housebuilding in Britain over time look less dramatic than looking at the gross supply. Arguably, the net growth of the housing stock has been relatively stable over the last century apart from the Second World War, and the more dramatic change has really been its failure to keep up with faster population growth.
- It might seem surprising that social housebuilding has not had more of a positive impact on net supply. We might think social homes might be smaller than private so we could get more on a site, but this effect may be marginal, depending on what it is displacing. The English Housing Survey shows that new build social rented housing built 2003–2015 was generally *bigger* than private rented housing (77 square metres compared to 72 in the private sector), although it was also smaller than owner occupied homes (107).

- Another hope might be that councils would be more generous in allocating land for social housing than private, but there’s no clear evidence for this, except in the case of the small number of Rural Exception Sites where social housing is allowed in places which councils might not otherwise allow building. In some cases, the provision of more social housing increases opposition to development from neighbours.
- Another argument is that social housing helps builders “build out” faster on a given site, as developers can immediately sell a decent proportion of the new homes they are building to a housing association, while trickling out homes for private sale at a rate which maintains their returns. But the ultimate constraint remains the supply of land rather than a limited supply of capital to invest in housing. Even if we could make all future sites build out instantly, this would not increase the total supply of housing over the longer term unless more sites came forward too, and there’s no evidence that faster build out rates would cause this to happen.
- In areas of growth, the amount of land coming forward is not limited by restricted developer appetite. Instead it is typically determined by the amount of development that the local authority is forced to grant to hit its centrally mandated five-year land supply and Objectively Assessed Need (OAN). This, in turn, reflects the fact that the current housing and planning system maximises public opposition, discussed later in this paper.
- Overall, the effect of spending more on social housing on overall supply is likely to be negligible unless we also increase the supply of land coming forward.
- Given government’s limited budget, there are likely to be more effective ways to increase the amount of land coming forward than spending on traditional social housing. Initiatives like the Housing Infrastructure Fund, through which central government funds new transport and social infrastructure to enable developments which would otherwise be unviable, are likely to provide more additional housing for a given investment than increasing spend on social housing. Enabling authorities to borrow to buy and then sell land would be more cost effective still.
- Of course, affordable housing has other purposes, such as lower rents. But if we want to increase overall housing supply, programmes which aim to unlock additional land are more likely to be effective.

Table 6: Unit cost and additionality of housing programmes

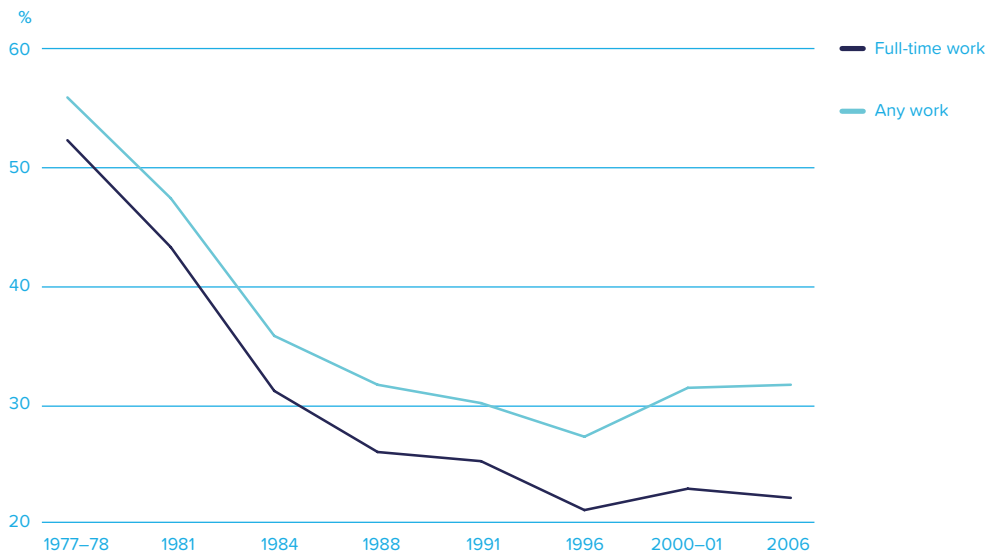
	Investment (£)	Homes to be built	Cost per home (£)	Additionality
Housing Infrastructure Fund ⁸⁴	866,000,000	200,000	4,330	High
Affordable homes programme 2015–18 ⁸⁵	3,300,000,000	165,000	20,000	Low/None
Affordable homes programme 2016–21 ⁸⁶	1,400,000,000	40,000	35,000	Low/None
Housing Announcement 2017 ⁸⁷	2,000,000,000	25,000	80,000	Low/None

- It is also worth considering these costs in the context of the size of the total housing stock. There were just under 28 million dwellings in Great Britain in 2016. To add just 1% to the total housing stock (even if all spending on social housing was fully additional) would cost £9.8 billion at a £35,000 unit cost or £22.4 billion at an £80,000 unit cost.
- Where new forms of social housing like Homes for Young People could play an important role in supply is in providing an “anchor tenant” for new communities. For older generations of new towns like Milton Keynes, social housing played an important role in getting the new community off the ground and getting people moving in: after all, it’s more attractive to move to a new community if others are already doing so, but how do you get the process started?

A new form of social housing is needed to meet the needs of younger working people. Social housing as it exists today is not available to many people in work and may also be reducing tenants’ employment rates

- While in previous decades social housing was available for large numbers of people in work, in recent times a combination of a smaller stock of social housing; a rising population; much higher rental costs and house prices, and changes to the way social housing was allocated after 1977 have all combined to mean that fewer people in work are offered the chance to get social housing.
- Something new is needed if working households on low incomes are to have a greater chance of accessing discounted rental properties.

Figure 36: Social tenants in work⁸⁸



- Social housing as it exists today may also be reducing employment rates among tenants. The Labour Government-commissioned *Hills Review* into the future of social housing noted that there was an unexplained gap in the employment rates of social tenants compared to equivalently disadvantaged people who do not live in social housing.
- Hills noted that between 1981 and 2006, “the full-time employment rate has fallen from 67 to just 34 per cent” among working-age social tenants. He also noted that “where a social tenant is affected by one disadvantage, their rate of worklessness is much higher than for those with the same disadvantage (although not necessarily to the same degree) who do not live in social housing”. Even allowing for the fact that social tenants are more likely to have overlapping disadvantages, Hills reported that, “for any given number of overlapping disadvantages, those in social housing have lower employment rates”.

Table 7: Employment rates by tenure and disadvantage

Employment rates if individual is:	Disabled	Lone parent	No qualifications
In social housing	40	35	43
Not in social housing	80	64	70

- Hills’ report rejects the idea that this is simply because social tenants found it more difficult to get a job in the first place. Comparing individuals’ job status in 2004 with their position 10 years before, the report notes that:

While only 1.7 per cent of all those who were employed in 1994 were unemployed 10 years later, 4.1 per cent of social tenants were – outflows from employment were faster in the social sector. At the same time, while 30 per cent of all those starting unemployed and 29 per cent of those starting economically inactive (of working age) ended without work, the proportions for social tenants were much higher: 41 per cent and 44 per cent respectively – inflows into employment were slower in the social sector. By 2004, all of those originally aged 11–15 would be of working age. For this cohort, 7 per cent of the total were unemployed in 2004, but this rises to 19 per cent for those who had been growing up in social housing.

- Hills also noted the findings of other cohort studies which found that growing up in social housing – even after controlling for other factors, appears to have a negative effect on future employment prospects: “depending on whether men or women are examined, growing up in social housing is associated with 1.9–2.1 times the chances of ending up with no qualifications by the age of 30 compared to those growing up mainly in owner-occupation, 1.5–1.7 times the chances of low earnings, and 1.9–2.2 times the chances of being unemployed. This association is over and above other factors that are also found to be most significant in explaining each disadvantage.”
- These findings have been subject to much discussion. Hills’ report suggested a variety of possible causes of this gap, ranging from unobserved differences to neighbourhood effects.

- One part of the explanation might be the way social tenancies prevent people from moving to find work and its wider effects on incentives. The report notes that “The rationing system within social housing makes it very hard to move home, particularly between regions and job-seeking or getting a job is rarely given high priority in local authority criteria for social housing allocations”.
- Hills’ report also looks at whether wider incentive effects might be the cause. Other commentary suggests that effects which may be related to the particular quality of what was built during the post war boom in social housing: Lynsey Hanley’s memoir *Estates*⁸⁹ chronicles her experiences of growing up in a large social housing estate and recalls that: “breaking out of it was like breaking out of prison.” A study by Alex Morton⁹⁰ in 2010 suggested that “needs based” allocation of social housing and transfers within it create perverse incentives and this “creates a sharp poverty trap”.
- Whatever the cause may be, we should be cautious about assuming that social housing is a silver bullet for our housing problems without a clear solution to the social problems that Hills identified.
- In proposing a new kind of sub-market rented housing in this paper, the author aims to avoid setting up any perverse incentives by avoiding tight means testing.

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