

Housing & Planning Policy: Making Housing Affordable

Christine M.E. Whitehead
London School of Economics and CCHPR,
University of Cambridge

CASE Themed Series

The Coalition's Social Policies: Early Directions &
Distributional Impacts

9th February 2011



The Planning & Affordability Story

- Why land use planning : some general principles
- The UK land use planning system
- Constraints on development and unaffordable housing
- S106 and the provision of affordable housing
- The Coalition approach to planning – and housing
- Initial evaluation

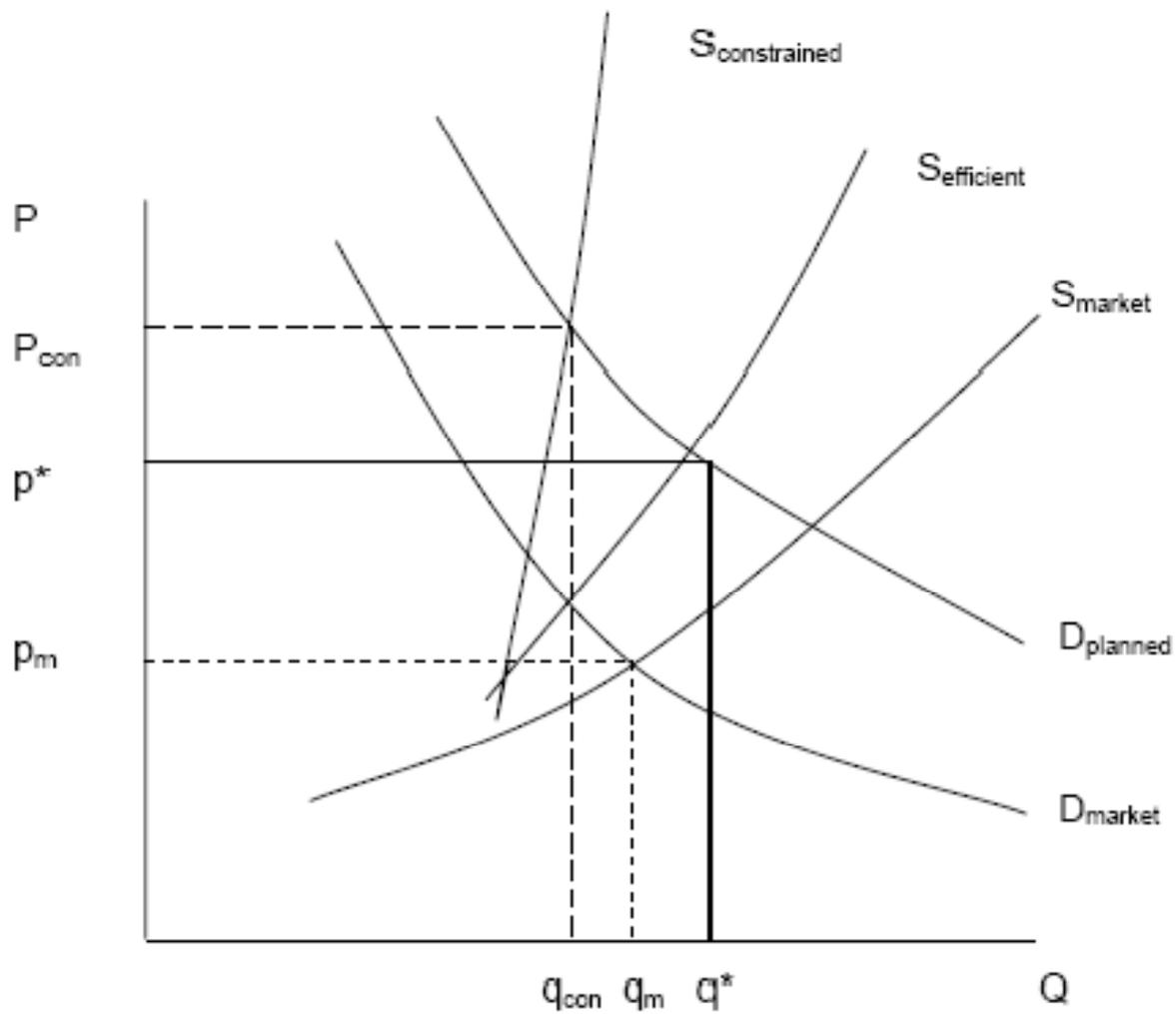
Land use planning: Objectives

From point of view of the economist the role of planning is to:

- Take account of market failures – particularly external costs and benefits - so as to generate a socially efficient mix of land uses and urban structure;
- Help ensure that there is an equitable distribution of land for housing, enabling all groups to find adequate affordable housing;
- Big tension between whether land use planning **replaces** the market to achieve social objectives or whether planning is **complementary** to the market

Efficiency, distribution or constraint?

- All planning systems are fundamentally systems of constraint in that they are regulating the market to ensure that outcomes are different from those which would happen under individual decisions;
- Moreover they are regulatory systems - so benefits and costs lie where they fall - so the effect of constraint is to generate both gainers and losers; gainers may need to be taxed and losers compensated if distributional objectives are to be achieved;
- But good planning decisions can improve the economy and the quality of life for all - it does not have to be a zero or negative sum game.



The Impact of planning on prices and land supply

Implications of general principles

- Good planning increases prices; bad planning increases prices – but the amount and location of land used is different!
- Distributional outcome depends on income distribution and offsetting measures
- These include land allocation for the use of affordable housing; taxation of land values; and subsidies to consumers and/or suppliers

The UK Land Use Planning System

The starting point:

The Town and Country Planning Act 1947

- Nationalisation of development rights – so separation of ownership and rights to use land;
- Planning permission required for change of use;
- Development control based on density, dwelling types, amenity, access to transport etc – not on economic variables as such and not on tenure;
- In addition building regulations and codes
- Important aim was to limit urban sprawl and improve the use of infrastructure; maintain farm land and countryside; enable regeneration/stop hollowing out – ie the efficient use of land and infrastructure;
- But main emphasis was on ensuring access to housing for all – with large scale public sector building (own land/give permission/build)

Policy development since 1947

Planning

- The basics of the 1947 Act have remained almost unchanged – still permission required for individual developments; still accepted by almost all politicians
- 1990 Town and Country Planning Act introduced local plans – now called Local Development Frameworks – within which local authorities were required to allocate enough land for housing and other purposes. However these plans are indicative - did not give the right to develop if that development conforms to the plan; - many see this as having increased constraint very considerably

Housing

- Shift away from local authority provision on own land to capital grants to Housing Associations who required a means of acquiring land on which to build
- 1990 Act made affordable housing a material consideration. Section 106 enabled local authorities, if they identified housing need through a housing needs assessment, to contract with developers to provide a proportion of housing in the form of affordable housing - a distributional offset to constraint?

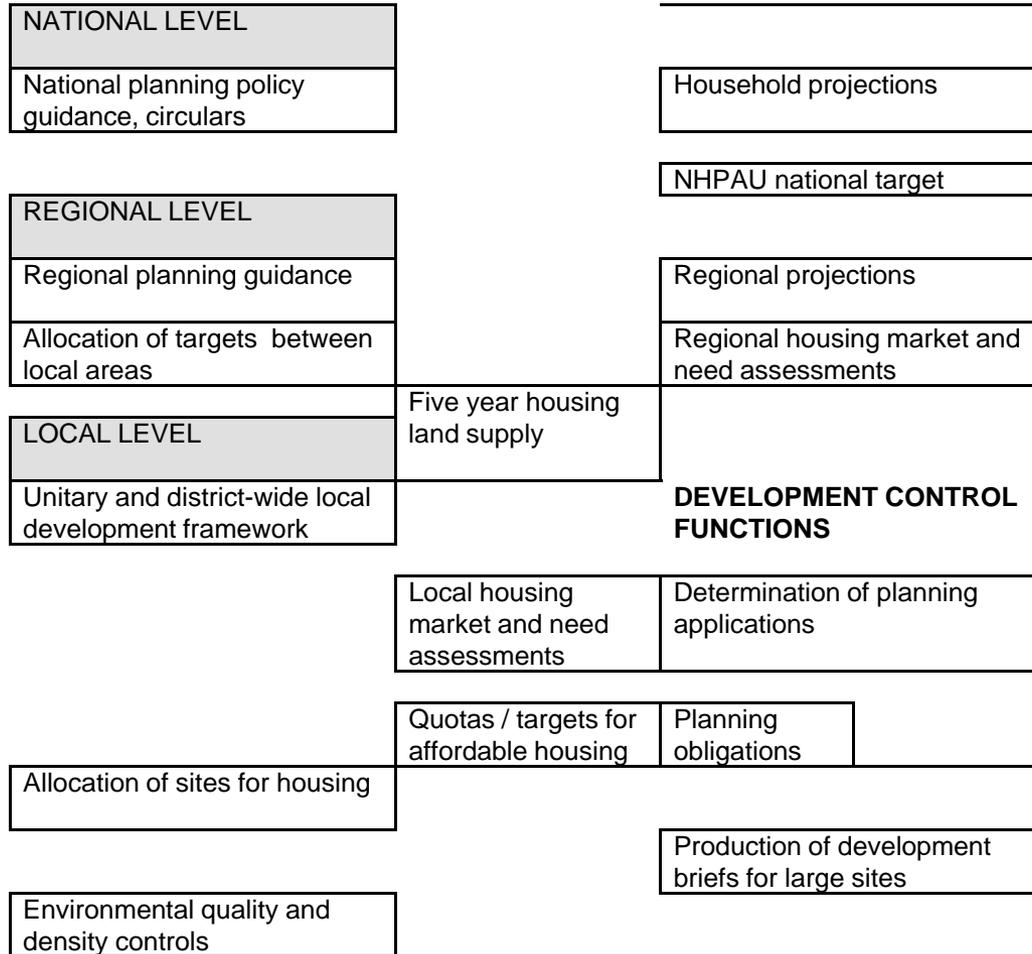
Top down approaches to ensuring provision in the 21st Century

Basic approach - national guidance based on household projections and estimates of unmet need

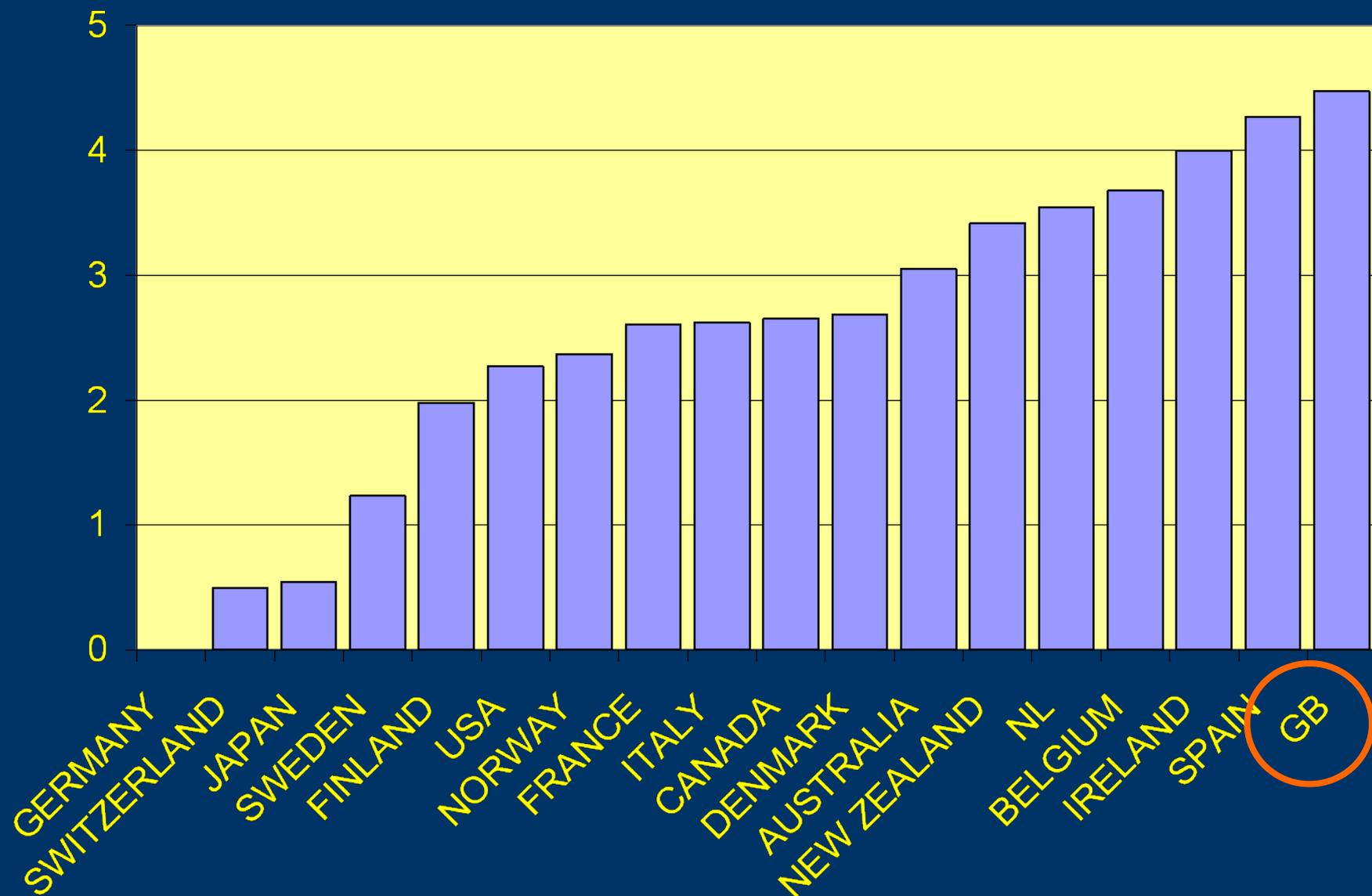
- Predict and provide based on demographics and quantities required
- Plan, monitor and manage based on market dynamics or really predict and provide?
- Shift to affordability as a measure of pressure - defined in terms of price/income ratios - based on Baker Review
- National Housing and Planning Advisory Unit a central provider of evidence based advice on national targets and regional allocations
- Throughout the period 2000 – 2007 output levels remained below household growth
- Thereafter fell precipitously as result of financial crisis

The Planning process

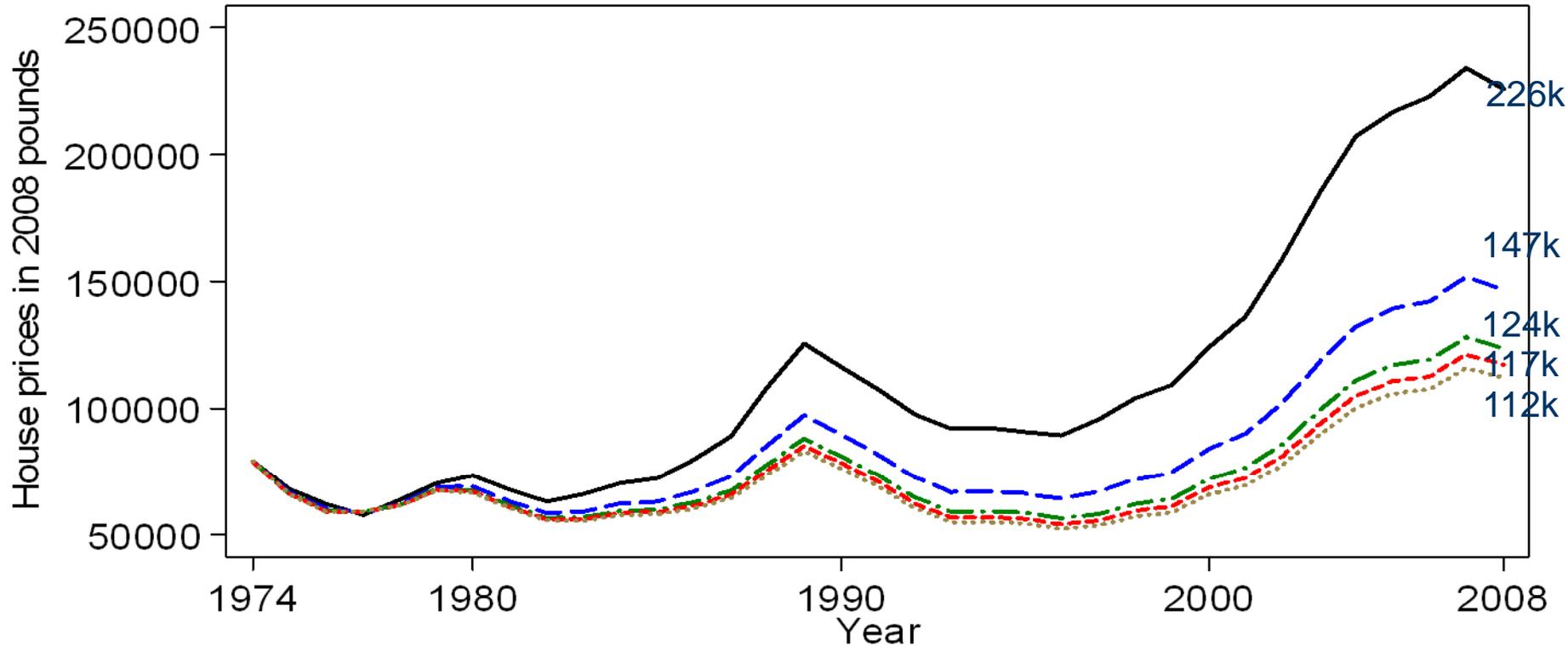
STRATEGIC PLAN-MAKING FUNCTIONS



Real house price growth, av. 70–06 (BIS)



What would house prices in average English LPA be if...



- Predicted real house prices in average English LPA
- - - Prediction with refusal rate set to zero
- . - - - - and share developed set to zero
- - - - - and elevation range set to zero
- - and earnings assumed constant

S106 and the provision of affordable housing: principles

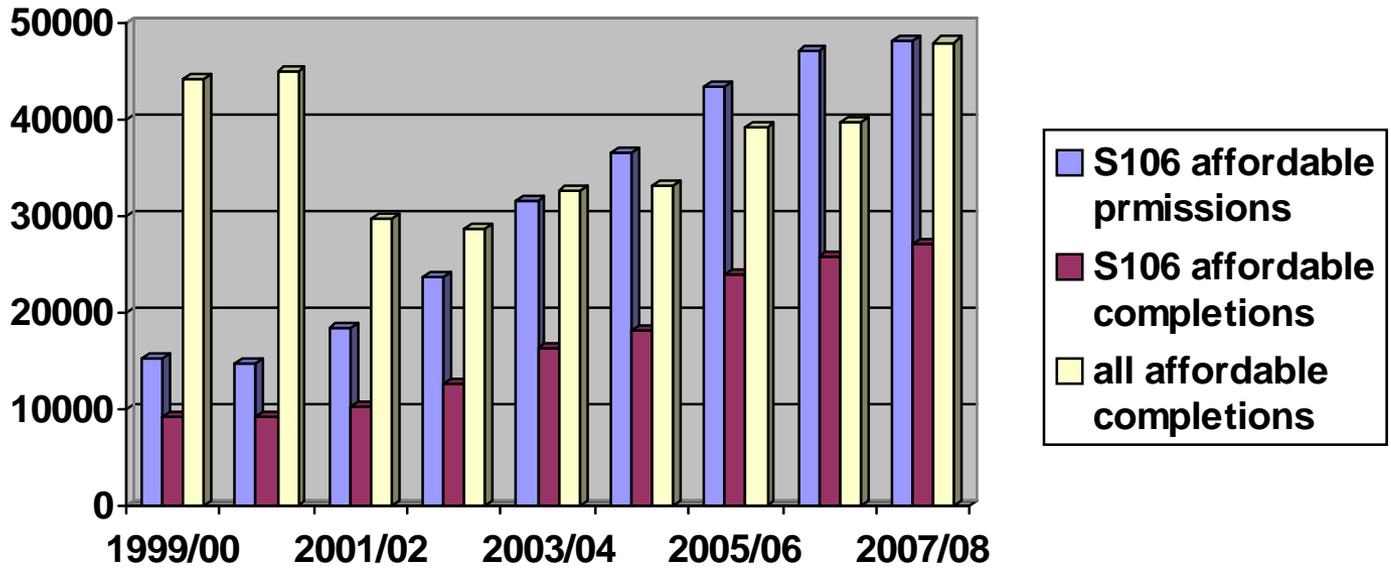
- Planning permission generates an increase in value over and above current or next best use;
- That value can be 'taxed' to provide for community benefits – including affordable housing;
- The greater the constraint the larger the opportunity for planning gain;
- If the rules are certain and transparent, land values will fall to take account of the obligation – so the land owner pays;
- The site has to remain viable which sets a limit on what can be charged - although always also issues of timing;
- From 1990 S106 available for affordable housing – transfer from landowner to lower income households.

How successful has S106 been?

- Took a long time to bed down and concerns about uncertainty over requirements and delays;
- Became the main source of land for affordable housing;
- But affordable housing provision tied to the provision of market housing;
- Incentives to developers to provide smaller units and units for the intermediate sector;
- Has strongly supported the mixed communities agenda;
- Has depended on Housing Associations for the delivery of the affordable housing element

S106 as proportion of new affordable homes

(source: DCLG)



Total value of obligations

(excluding land contributions and county councils)

| Type of obligation | 2003-04 | 2005-06 | 2007-08 | Change 2003-04 to 2007-08 | Change 2005-06 to 2007-08 |
|--|----------|----------|----------|---------------------------|---------------------------|
| Total Non Affordable Housing Obligations | £700 m | £970 m | £1,350 m | 93% | 39% |
| Affordable Housing (rounded) | £1,200 m | £2,000 m | £2,600 m | 117% | 30% |
| Total | £1,900 m | £2,970 m | £3,950 m | 108% | 33% |

Source: Crook et al (2010),
Valuing planning Obligations ,
DCLG (grossed up sample)



Proposed Alternatives/Supplements to S106

- A tariff or roof tax? – a required financial payment for infrastructure (Milton Keynes)
- Community Infrastructure Levy – a proportion of the value of any development to be paid towards infrastructure provision based on infrastructure plan (Labour & Conservatives)
- Local incentives to provide affordable housing through supplements to council tax revenues (Conservatives)

Where were we in 2010?

- House prices had risen very rapidly to 2007 worsening affordability
- Recession meant very little building and most based on the stimulus package
- But it had not reduced prices to affordable levels especially given lack of mortgage funding
- Targets were not being achieved
- Resistance to top down targets at local level and little buy in to development of any kind
- Many existing sites not financially viable so little potential for affordable housing through S106

The Conservatives' approach pre -election

- Removal of national and regional housing targets;
- Removal of regional layer of government except London and maybe North East;
- Local plans to be agreed with central government – implicit contract;
- Maintain local housing needs assessment plus 5 year supply of land;
- Rights to develop within the plan but third party rights to object where significant costs;
- S106 restricted to site specific remediation and affordable housing
- CIL uncertain

The Core Issue?

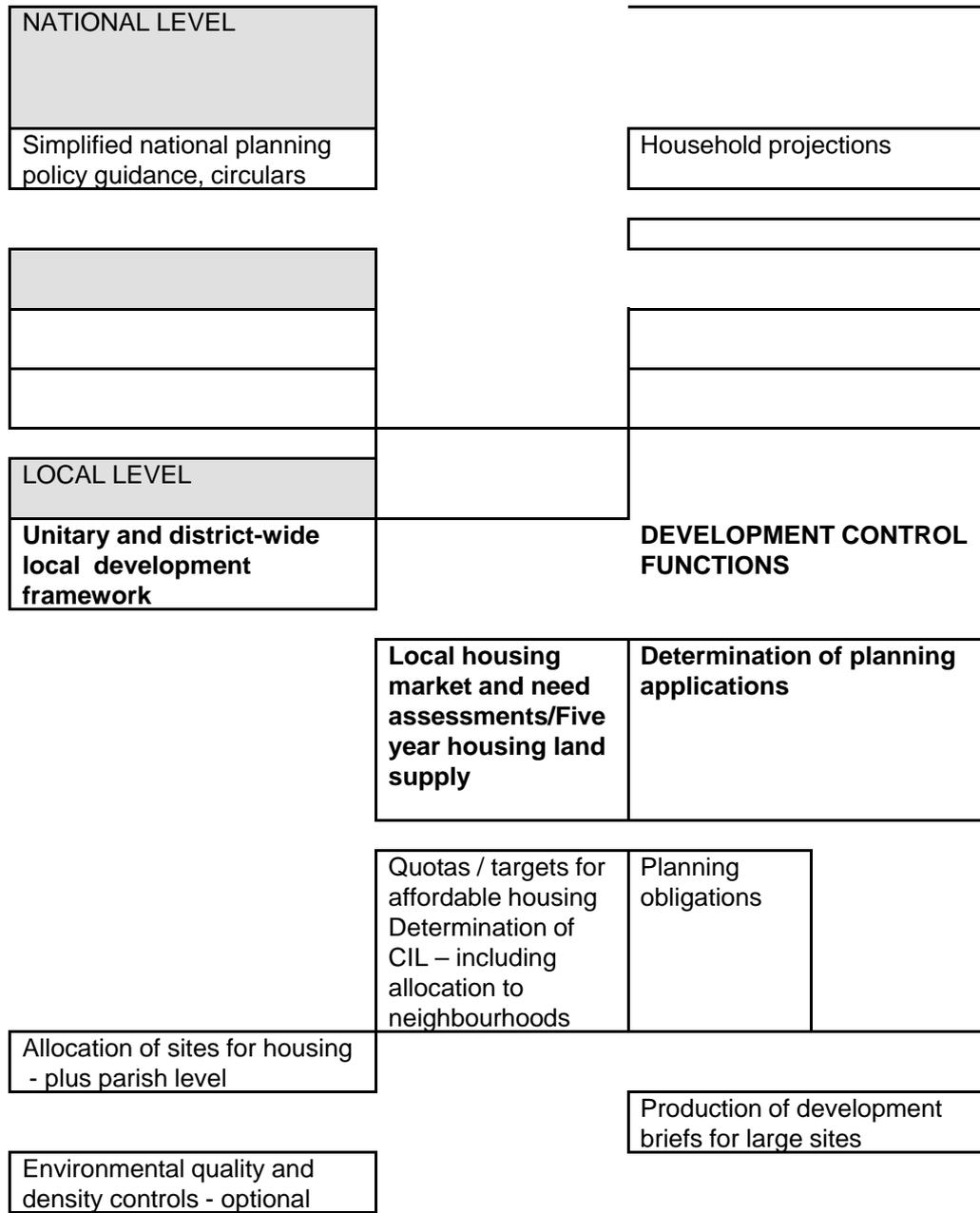
Local Incentives/Disincentives

- Under existing system little or no tax benefit to local authority from enabling more housing – business rate unaffected; tiny, dampened, change in grant from population increase
- But real costs to the authority and the community in terms of physical and social infrastructure and loss of amenity
- ‘Insiders’ benefit from constrained supply; ‘Insiders’ have vote
- Neighbours of new development lose out most
- S106 a partial recompense. Tensions between affordable housing and public realm/infrastructure

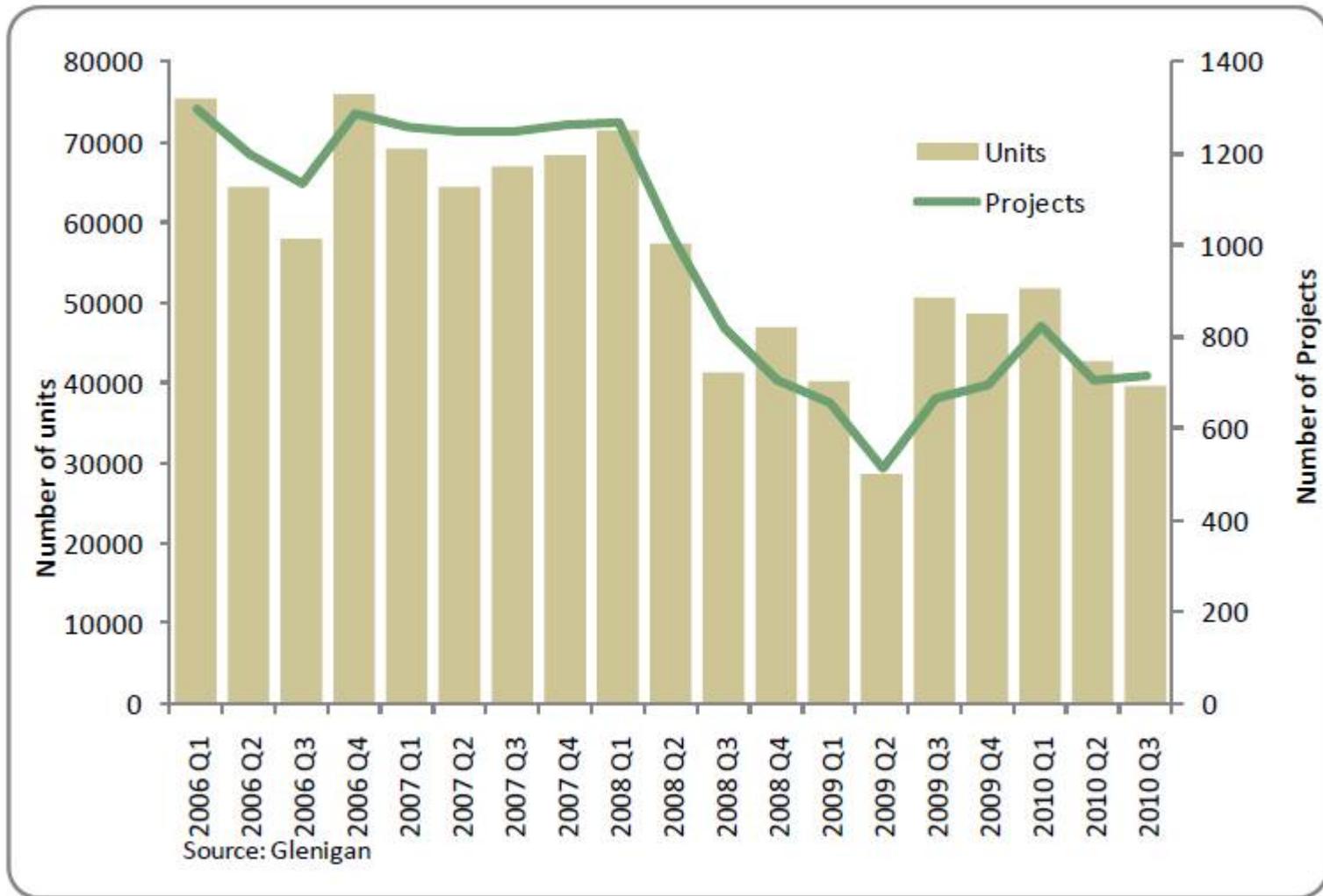
The Coalition Approach to Planning: the Localism Bill

- Removal of national and regional housing targets;
- Removal of Regional Spatial Strategies except in London;
Local development frameworks remain in place but
Inspector cannot challenge
- Maintains local housing needs assessment plus 5 year
supply of land;
- Parish level right to give planning permission – other
aspects unclear?
- S106 restricted to site specific remediation and
affordable housing;
- CIL to remain but some to go to neighbourhoods rather
than infrastructure

The New Planning process



Impact on the New Housing Pipeline



The New Homes Bonus

- £200m 2011/12; £250m p.a 2012-15; rest from Formula Grant
- Based on net new additions
- Per unit payment equal to the national average for the relevant council tax band for 6 years (around £650)
- Enhancement for affordable homes of £350 p.a (including 'affordable rent' homes)
- 80% to lower tier in 2 tier systems
- Bringing empty homes into use and traveller sites to benefit

New Homes Bonus: DCLG worked examples

| Local authority A | | |
|----------------------------------|-------|-----------------|
| Type of delivery | Units | Gross incentive |
| Net additions | 1,800 | £12.5m |
| - of which are affordable homes | 500 | £1.1m |
| Empty homes bought back into use | 20 | £0.1m |
| Gypsy and Traveller sites | 10 | £0.1m |
| Total | | £13.8m |
| Local authority B | | |
| Type of delivery | Units | Gross incentive |
| Net additions | 400 | £3.3m |
| - of which are affordable homes | 40 | £0.1m |
| Empty homes bought back into use | 10 | £0.1m |
| Gypsy and Traveller sites | 40 | £0.2m |
| Total | | £3.6m |

Incentives

- Hypothecated funding
- Larger grant for larger homes
- Easiest for greenfield/large sites

Disincentives

- Net additions not new build – will not be known for some years?
- Reducing Nimbyism - how are benefits to be linked to those who suffer from the development
- And is the scale of the payment adequate?

Related Housing Changes: Supply Subsidies and 'Affordable Rents'

- Within social sector shift for capital grants to revenue funding
- 'Affordable rents' for new build at up to 80% of market
- The subsidy cost to be transferred away from capital grant to Housing Benefit
- Impact of welfare and property size caps
- No funding directly identified for regeneration

Conclusions: What May Happen in Planning

- Removal of national targets and regional layer, together with local determination of needs reduces the pressures to allocate land (HBF evidence) – but was the top- down approach really working?
- LDF remains in place but Inspectors have no capacity to force change
- Lack of guidance (so far) on local needs assessments likely to produce lower estimates of requirements
- Right to neighbourhood planning at parish level appears to be pro-development – but how will it work?
- Part of CIL expected to go to neighbourhoods leaving infrastructure costs uncovered?
- ‘Chickened out’ on presumption in favour of sustained development but also on ‘third party rights’
- So general incentives appear to reduce land allocation except for New Homes Bonus
- New Homes Bonus will work in some circumstances but in others too small; too uncertain; too late; too untargeted at those who suffer?

Conclusions: Distributional Implications

- Lower land supply, higher house prices and increased rents unless incentives can be made to work
- Loss of Formula grant if do not build – is the NHB and loss of grant enough to overcome Nimbyism/Bananaism?
- Differential incentives between types of area – shifting development into poorer areas?
- But major implications come from shift from ‘residual’ capital grant for affordable housing to revenue based development
- Will make regeneration more difficult; increase the risks for social landlords; and shift incentives towards housing intermediate market households
- Big spatial redistribution towards South? – but will localities be prepared to build?
- And there are still the cuts and the recession to cope with!

Thanks

to Christian Hilber for permission to copy slides 11 and 12 from

Hilber C and Vermeulen W, *Impacts of Restricting Housing Supply on House Prices and Affordability*, DCLG, 2010

to the House Builders Federation for permission to copy slide 23 from *New Housing Pipeline* quarterly report December 2010;

To David Lunts HCA for figures on the impact of the stimulus – presentation will be available on LSE London website -

www.lse.ac.uk/collections/LSELondon/events/letermseminars/

Contact point: c.m.e.whitehead@lse.ac.uk

