It’s Rising Incomes Stupid: so we need to go UP and OUT!

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1. Land markets have endemic problems of market failure: so we need to regulate them – need planning

2. Most important problem is ‘public goods’:
   - Goods not practical to charge a price for and which have zero opportunity cost in consumption: parks: open space; historic townscape; habitat; scenic countryside….
   - Most important of all – public space for infrastructure; ordered expansion.
   - So a compelling case for planning but…. 
   - Planning is an **economic activity**: it allocates supply of scarce goods – land for different uses.
Growing Population: Causes Housing Crisis?

• We all know that?
  • But take GLA Area

• Period % Change Pop %Change Real House Prices
• 1981-2011 +20.5 227.6
• 1951-1981 -16.9 71.9
• 1951-2011 +0.1 +463.2

➢ No we do not! Price results from interaction of supply with demand;
➢ Population has some impact on demand: but far more important influence is real incomes.
What happens to price if you restrict the supply of space?

- **Space is valued:** a strong income elasticity of demand:
  - Cheshire & Sheppard (1998) – about 2
  - Meen (2013) about 2.7 > than price elasticity of demand
  - [OBR 2014 – about 3];
- Policy has restricted the supply of space for housing in London (& elsewhere but most in south east) since 1955
  - 1951 to 2011 population only increased by 0.1%
  - Compare +50% 1871 to 1901: but
  - Real incomes up x 3
  - Car ownership up x 13
- Increases the price of land and housing; and increases price volatility.
Forecasting Impact of Land Supply on Real House Prices

- **1996 Green Paper** *Household Growth: where shall we live?*
- DETR Commissioned model to estimate impact on real house prices of alternative land release policies:
  - 60% Brownfield + projected population increase + long run real income increase => House prices up **132%** by 2016;
  - Same population increase + income **constant** => house prices up **3%** by 2016;
- Official view? Result impossible & could be used by those critical of government policy….
- Actual increase to 2014? +140%
- And demand is for location: where incomes can be earned
- Houses/land in Doncaster/Barnsley are **NOT** substitutes for houses & land in Oxford/Cambridge
What happens to price if you restrict the supply?

- Can identify Green Belt by land price...
But not just NOT out: NOT up!
Real Price of Housing Land and Houses:
England 1892-2007

Land Price Index
House Price Index

Note: House and Land data for war years are interpolated.
There is no space...

- But even in the GLA area:
  - Counting gardens, parks, woods, agricultural, water, etc. 64.9% of GLA area is ‘Green’
  - Compares to 93.7% of South East – ‘Green’
  - 22.1% of GLA is Green Belt
  - Area of golf courses inside GLA Green Belt – twice that of Borough of Kensington & Chelsea!
  - Nothing against golf - but grotesque undersupply of housing and over supply of golf courses in London area
- OR....
On the Northern Line
South London
The edge of Cambridge
74% of Cambridge Greenbelt is intensive arable
Crossrail: £18bn but no houses allowed!
Space Rationing in face of Rising Incomes....

- Means that real house prices will continue remorselessly to increase relative to incomes; and more volatile.
- Policy is generating loss of agglomeration economies
- Double city size, all else equal, TFP increases about 5%
- Main cost increase with city size is cost of space:
  - With **fixed land supply** - costs rise in step with agglomeration benefits;
  - With **elastic land supply** - at only 0.4 of rate of gains
- Do Greenbelts ‘solve’ any problem of market failure?
  - Redistribute to the rich: to housing-haves & richer ones;
- Need to plan for, and facilitate, urban expansion:
  - OUTWARDS and UPWARDS.