

Institution: London School of Economics and Political Science
Unit of Assessment: 17: Geography, Environmental Studies and Archaeology
Title of case study: Better policy recognition of the economic effects of land use planning
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>Research undertaken at LSE since 1995 has changed the terms of debate about land use planning and contributed to substantive changes in government policy. Planning was previously thought of as purely an environmental/design issue, but the underpinning research has demonstrated substantial economic effects on housing supply and affordability, housing market volatility, and on the productivity of economic users of space: it has shown that England's planning policies add up to 35% to housing costs, act as a tax equivalent of up to 800% on the cost of office space and since 1996 have reduced the productivity of a representative English supermarket by 32%. The work had significant influence on the two Barker Reviews and subsequent housing policy changes introduced by the Blair and Brown Labour governments. More recently it has influenced Coalition thinking and policy on planning's wider economic impacts.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p><i>Research Insights and Outputs:</i></p> <p>The underpinning research was the first to recognise and rigorously estimate the impact that British planning policies had on the price, quality and affordability of property through the constraint that these policies (intentionally) exerted on the supply of land for development. The research programme has developed in two main phases.</p> <p>The first phase (1995-2003) focused on housing. The particular contribution was to recognise and evaluate the impact on the price of space internal to houses and external in gardens, both in money terms and in terms of economic welfare – measured as equivalent income together with the value of planning produced amenities. This allowed an estimate of the net welfare impact of planning policies in different city contexts [1, 2 & 3].</p> <p>These ideas were developed and applied in a study commissioned by the then Department of the Environment, Transport and the Regions (DETR, 1997-1999, £99,800) and delivered by Cheshire and Professor Sheppard. This work produced a model capable of estimating the change in the real price of housing resulting from any given decision on the supply of land, by region and for England as a whole. The insights from this led Cheshire and Sheppard to generate specific policy ideas for reform of the planning system to reduce its economics costs while so far as possible retaining the value of amenities it generated [4].</p> <p>From 2003, a second phase of research has substantially widened the scope to analyse the economic impacts of planning policies on productive sectors of the economy, specifically on the costs of office space and retail productivity. Part-funded by an HM Treasury grant (2006, £7,500), Cheshire and Christian Hilber analysed the impacts of planning policies on office costs [5]. This found that policies by limiting supply increased the costs of office space by the equivalent of up to an 800% tax on marginal construction costs. Careful comparisons using identical methods and data with European and US cities showed that these regulatory costs were an order of magnitude greater in UK cities than elsewhere and were high even in struggling provincial cities such as Birmingham. The research also found these costs partly reflected the lack of incentives to local government to permit development.</p> <p>Since 2008, the research has been supported within the LSE's Spatial Economics Research Centre (SERC) (funded by the Economic and Social Research Council, Department for Business, Innovation and Skills, Department for Communities and Local Government and Welsh Assembly Government, 1st phase 2008-2011, £2.875m). SERC was directed by Henry Overman during the</p>

REF period. With SERC funding, Cheshire and Hilber have evaluated the impacts of planning policies on retail productivity [7] finding productivity losses to a representative store of 32% as well as a sharp reduction in store space in more restrictive areas. Hilber and Wouter Vermoulen (visiting PhD student, then Associate in 2006, and from 2008) also tested more rigorously the causal relationship between planning restrictiveness at the local level and house prices (National Housing and Planning Advice Unit, 2008-10, £49,039) [6]. Their findings were that variations in local restrictiveness were the primary direct cause of house price differences across areas, increasing prices by up to 35% in southern England. As part of a second tranche of SERC funding (2012-2014, £900k), in conjunction with the LSE's Grantham Research Institute on Climate Change and the Environment, the research has moved on to analyse and quantify the claimed benefits of Town Centre First policies for retail: specifically estimating the impact these policies have had on the distribution of real incomes [7], and the impact of planning policies on the carbon footprint of the retail sector.

Key Researchers: Cheshire joined LSE in 1995 as full-time staff; Overman has been full time at LSE since 1999; Hilber has been full time at LSE since 2003; Stephen Sheppard was an academic visitor, and subsequently Senior Research Fellow, from 1997-1999.

3. References to the research (indicative maximum of six references)

1. Cheshire, P and S. Sheppard (1995) 'On the Price of Land and the Value of Amenities', *Economica*, 62, 247-67. <http://www.istor.org/stable/2554906> <http://eprints.lse.ac.uk/51679/>
2. Cheshire, P and S. Sheppard (1998) 'Estimating the demand for housing, land and neighbourhood characteristics', *Oxford Bulletin of Economics and Statistics*, 60, 3, 357-82. DOI: 10.1111/1468-0084.00104
3. Cheshire, P and S. Sheppard (2002) 'Welfare Economics of Land Use Regulation', *Journal of Urban Economics*, 52, 242-269. DOI: 10.1016/S0094-1190(02)00003-7
4. Cheshire, P. and S. Sheppard, (2005) 'The Introduction of Price Signals into Land Use Planning Decision-making: a proposal' *Urban Studies*, 42, 4, 647-663. DOI: 10.1080/00420980500060210
5. Cheshire, P. and C.A.L.Hilber, (2008), 'Office space supply restrictions in Britain: the political economy of market revenge'. *Economic Journal*, 118, Issue 529, F185–F221. DOI: 10.1111/j.1468-0297.2008.02149.x
6. Hilber, C. and W. Vermeulen (2012) 'The Impact of Supply Constraints on House Prices in England', *SERC Discussion Paper* no. 119. <http://eprints.lse.ac.uk/31768/>
7. Cheshire, P., C.A.L. Hilber and I. Kaplanis (2013) 'Land Use Regulation and Productivity – Land Matters: Evidence from a UK supermarket chain', *SERC Discussion Papers*, No 138. <http://eprints.lse.ac.uk/31757/>

Evidence of quality: 1-5 published in peer-reviewed journals of international standing. The SSCI, counting only journal citations, shows 110 [1], 44 [2], 57 [3], 21 [4] and 9 [5]. According to Oswald's 2009 analysis (<http://wrap.warwick.ac.uk/1330/>), item number 3 was one of only 45 truly world-leading articles published by British economists during the 2001-08 RAE period.

Additional research funding not identified in Section 2: Paul Cheshire and Stephen Sheppard: Lincoln Institute for Land Policy International Workshop Grant (2002), *Analysis of Urban Land Markets and the Impact of Land Market Regulation*, \$60,000.

4. Details of the impact (indicative maximum 750 words)

Links from Research to Impact:

The impact of the research and its findings has been twofold. First, it has changed the terms of the debate: ministers and officials are increasingly aware that land use policy has substantial economic impacts. These are felt in both the housing market (on house prices relative to incomes, and market volatility), and in the supply side of the wider economy (through the effect of land

supply restrictions on productive sectors). Second, the findings have influenced government thinking and specific government policies, across a range of housing and planning issues. These insights have had a cumulative impact, visible in the policies of the Blair and Brown Labour governments (Sources A-D), the current Coalition (Sources G,H) and international organisations (Source E).

Nature of the Impact:

The process whereby this research entered government thinking started in 1997 when the then DETR commissioned a project from Cheshire and Sheppard to quantify the impact on house prices of alternative patterns of land release. The headline finding – that a policy forcing 60% of new construction onto ‘brownfield’ sites would be associated with a 132% increase in real house prices by 2016 – helped establish the first Barker Review (2003-4).

Cheshire’s work was highly influential in the two Barker reviews of the planning system (sources A-D). Both Reviews extensively quoted from underpinning research output items [1], [2] and [4] as well as other work by Cheshire and associates. On page 40 of Barker (source B) the proposal to use price signals generated by land markets was quoted extensively and subsequently influenced the National Planning Policy Framework (NPPF) [source J] of 2012. The work on price signals was again quoted extensively in Chapter 8 of Barker (source C), as was work by Cheshire and Hilber [5] on planning restrictions and office costs [source C, Para 1.21 pgs 175-78]. The Barker Reviews in turn led to two new Planning Acts (2004 and 2008). These in turn led to setting up the Regional Spatial Strategies, the Infrastructure Planning Commission and The National Housing and Planning Advice Unit, of which Cheshire was a Board member until its abolition in June 2010.

Although most of these institutional changes were swept away after the elections in May 2010, the insights of the underpinning research and the related policy recommendations continued strongly to influence policy. For example Cheshire, in a memo to Barker and the Treasury (HMT) (03/10/2006), argued for using Impact Fees rather than Planning Gain Supplement then favoured to offset for costs imposed on the community by development. The subsequent Planning Act of 2008 introduced the Community Infrastructure Levy (CIL) – equivalent to an Impact Fee. The Coalition announced in 2010 that it would retain CIL. Although the Infrastructure Planning Commission was abolished, the principle which it embodied – that infrastructure of national significance should not be subject to the process of local development control - was retained. Many specific recommendations in the NPPF (such as using market signals and the need for planning policies to reflect the economic gains of development) directly reflected the work of Cheshire and colleagues. Cheshire was also invited to give both written and oral evidence to the House of Commons Select Committee on the Environment’s hearings on the draft NPPF [source I]. Ministers’ statements continue to reflect these contributions to the Committee, such as the Planning Minister Nick Boles’s call on 11 January 2013 to permit new building on Greenfield sites.

The research on office costs and now supermarket productivity has persuaded the UK government of the contribution land use planning makes to the structural obstacles on the supply side of the British economy. This has clearly fed into Department of Business, Innovation and Skills (BIS) and HMT policy documents (sources G,H), in particular, the introduction of financial incentives for local authorities to encourage house building (New Homes Bonus finalised in 2011) and ‘pro-growth’ economic development (Business Rate retention (source K) introduced in April 2013). Extensive quotations from the underpinning research reveals how the proposals adopted were influenced by it. Cheshire and Hilber’s work on office costs [5] was notably influential on Business Rates retention. Both Cheshire and Overman had close contact with officials as these policy innovations were developed.

Cheshire and colleagues have also influenced wider policymaking processes, through work with other UK and international actors. For example, following the General Election of 2010 Cheshire was appointed to the Department for Communities and Local Government’s (DCLG’s) Planning Sounding Board. Cheshire and Overman briefed incoming BIS ministers in June 2010 and in July 2011 briefed the Secretary of State in BIS. Cheshire has presented aspects of the work to

seminars and workshops for the Government Economic Service, HMT, DCLG, Cabinet Office and BIS as well as having one-on-one meetings with senior officials. He has also contributed to the Bank of England Residential Property Forum, provided a discussion paper for Foresight's *The Future of Land Use* (source F) and given presentations at the OECD and prepared a briefing paper for OECD on the role of 'green cities' and the development of policies for the built environment to help limit carbon emissions. In late 2012 Cheshire was asked to advise the New Zealand Treasury on reform of planning policy and has since briefed the NZ Deputy Prime Minister on his visit to London in late June 2013. Cheshire was recently named as one of just five academics in the magazine *Planning's* list of 100 most influential people in UK planning (source L).

Wider Implications: Land use planning policies designed without regard for either how land markets operate or the critical importance of both space and precise location for housing welfare and productivity have imposed significant costs on firms and households in Britain. Designing planning policies so they better reflect economic efficiency while at the same time they protect the environment better would make a major contribution to both welfare and economic productivity and growth.

5. Sources to corroborate the impact (indicative maximum of 10 references)

All sources listed below can also be seen at: https://apps.lse.ac.uk/impact/case_study/view/9

- A. Barker, K. (2003) *Review of Housing Supply: Securing our Future Housing Needs: Interim Report – Analysis*, London: HMSO. <https://apps.lse.ac.uk/impact/download/file/1464>
- B. Barker, K. (2004) *Review of Housing Supply: Final Report - Recommendations*, London: HMSO. <https://apps.lse.ac.uk/impact/download/file/1465>
- C. Barker, K. (2006a) *Barker Review of Land Use Planning; Interim Report - Analysis*, London: HMSO. <https://apps.lse.ac.uk/impact/download/file/1466>
- D. Barker, K. (2006b) *Barker Review of Land Use Planning; Final Report - Recommendations*, London: HMSO. <https://apps.lse.ac.uk/impact/download/file/1467>
- E. <http://78.41.128.130/dataoecd/34/37/41763060.pdf>
- F. <http://www.bis.gov.uk/foresight/our-work/projects/published-projects/land-use-futures/reports-and-publications>
- G. http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf
- H. <http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/u/10-1226-understanding-local-growth>
- I. <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmcomloc/1526/11101001.htm>
- J. <http://www.communities.gov.uk/planningandbuilding/planningsystem/planningpolicy/planningpolicyframework/>
- K. <http://www.communities.gov.uk/publications/localgovernment/businessratesstepguide>
- L. *Planning*. March 8 2013 http://www.haymarket.com/planning/planning_magazine/default.aspx

Confidential documents

Memo to HMT and to Kate Barker dated 03/10/2006 [available from LSE on request]