

WRITTEN EVIDENCE SUBMITTED BY DR. CHRISTIAN HILBER

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HOUSE OF COMMONS  
**WRITTEN EVIDENCE TO THE TREASURY SELECT COMMITTEE\***

**BUDGET 2016**

THIS WRITTEN EVIDENCE ACCOMPANIES MY ORAL EVIDENCE  
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## **EXECUTIVE SUMMARY**

- The evidence from economic research points clearly to the UK's planning system as the main cause of the housing shortfall and the corresponding affordability crisis. Three key issues can be identified:
  - i. Allocation of land for residential development via restrictive development control system;
  - ii. Lack of fiscal incentives at local level to permit residential development;
  - iii. Countless planning constraints that prevent expansion of residential development in all directions, particularly in the most desirable cities of the country.

These three flaws and their interactions in conjunction with rising demand pressures can jointly explain why housing affordability has been decreasing over time and why housing supply no longer responds to rising prices.

- Evidence from economic research suggests that regulatory supply constraints do not only have the effect of constraining supply and raising house prices, they also amplify house price volatility, thus creating systemic risks, and adversely affect productivity.
- Where supply is constrained, the main effect of policies that stimulate housing demand – such as Help-to-Buy – is to increase house prices rather than supply. These price increases also prevent an increase in homeownership attainment. Demand-side policies may thus be ineffective and often counterproductive.
- Evidence from economic research firmly suggests that the Stamp Duty Land Tax (SDLT), which taxes property transactions, reduces household mobility substantially. This adverse effect is mainly confined to housing related and short distance moves. The resulting mismatch in the housing market exacerbates the affordability crisis.
- To tackle the affordability crisis, reduce price volatility and corresponding systemic risks and boost productivity, supply-side reforms ought to be considered in three broad areas:
  - i. Reform of planning system: 'rule base zoning' instead of 'development control';
  - ii. Reform of ways property is taxed at local level and introduction of impact fees;
  - iii. Relaxation of existing planning constraints where such constraints cannot be justified by market failure (i.e., on environmental, cultural or social grounds).

## **BRIEF INTRODUCTION**

I am Associate Professor of Economic Geography (Professor of Economic Geography from 1<sup>st</sup> August 2016) at the London School of Economics (LSE). I am also an Associate of the Centre for Economic Performance and the Spatial Economics Research Centre and a Member of the Academic Panel of the What Works Centre for Local Economic Growth. Before joining the LSE, I was an Economist at the US government sponsored enterprise Fannie Mae (2002-2003) and a Postdoctoral Research Fellow at the Real Estate Center of the Wharton School, University of Pennsylvania (1999-2002). I hold a Ph.D. in Economics (1998) from the University of Basel. Relevant to this written evidence, my research focuses on the functioning of land and housing markets and on the impact of policy interventions in these markets. In particular I have a keen interest in the economic impact of land use regulation and the determination and economic and social consequences of homeownership.

I currently serve as a Member of the Board of Directors of the American Real Estate and Urban Economics Association. I am also an Associate Editor of *Regional Science and Urban Economics* and of *Journal of Regional Science* and a Member of the Editorial Board of *Journal of Housing Economics*. I am a Fellow of the Weimer School of Advanced Studies in Real Estate and Land Economics. I have published in numerous academic journals including *Economic Journal*, *Journal of Economic Geography*, *Journal of Urban Economics* or *Review of Economics and Statistics*.

## WRITTEN EVIDENCE

### I. THE CAUSES OF THE CURRENT AFFORDABILITY CRISIS

1. Over the last 40 years, house price growth in the UK has been faster than in any other OECD country and has far outstripped earnings growth. Consequently, a housing affordability crisis has developed. This crisis is most accentuated in the Greater London Area<sup>1</sup> and the south east of the country.
2. Despite rising real incomes and population growth – that is, growing demand for housing – construction of new housing in the UK has been decreasing more or less steadily since the 1970s, leading to a substantial and growing housing shortfall.<sup>2</sup>
3. Longstanding UK evidence, summarised in Barker (2003)<sup>3</sup>, demonstrates that housing supply is incredibly unresponsive to demand shocks. Three types of long-run supply constraints could potentially explain this unresponsiveness: (i) planning induced constraints, (ii) local scarcity of developable land and (iii) topographical constraints.
4. Our research – published in the latest issue of the *Economic Journal*<sup>4</sup> – suggests that the main culprit in England<sup>5</sup> is the planning system, with planning being particularly unresponsive in the Greater London area and the south east of the country. Put differently, planning induced constraints in conjunction with strong demand for housing in parts of the country are the main *causal* drivers of the extremely high house prices.
5. The evidence discussed here focuses on the impact of regulatory supply constraints on the market for owner-occupied housing and on house prices.<sup>6</sup> The conclusions however should also largely apply to the private (and to a lesser extent to the social) rental market and private rents because owner-occupied housing and private rental housing (to a lesser extent social rental housing) are reasonably close substitutes and regulatory constraints are similarly binding for private and social rental and owner-occupied housing.

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<sup>1</sup> To illustrate just how severe the crisis in London has become, according to Land Registry, the average house price of property in London has gone up by £65,191 year-to-year since March of 2015. This is significantly more than the median or average household income in the capital. The latest household income estimates for the capital for 2012/13 published by the GLA are £39,100 (median income) and £51,770 (average income).

<sup>2</sup> Not only has construction declined massively over the last 40 years, new houses are also about 40 percent smaller than in similarly densely populated European countries (i.e., the Netherlands and Germany).

<sup>3</sup> Barker, K. (2003) *Barker Review of Housing Supply: Securing Our Future Housing Needs: Interim Report – Analysis*, London: HMSO. Downloadable from: [http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/barker\\_review\\_of\\_housing\\_supply\\_recommendations.htm](http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/barker_review_of_housing_supply_recommendations.htm).

<sup>4</sup> Hilber, C.A.L. and W. Vermeulen (2016) *The Impact of Supply Constraints on House Prices in England*, *Economic Journal*, Vol. 126, No. 591, 358-405. Downloadable from: <http://onlinelibrary.wiley.com/doi/10.1111/eoj.12213/abstract>. Latest discussion paper version: [http://personal.lse.ac.uk/hilber/hilber\\_wp/Hilber\\_Vermeulen\\_EJ\\_forthcoming.pdf](http://personal.lse.ac.uk/hilber/hilber_wp/Hilber_Vermeulen_EJ_forthcoming.pdf).

<sup>5</sup> We did not have sufficient data to study Scotland, Northern Ireland or Wales.

<sup>6</sup> The evidence is confined to the impact of supply constraints on house prices rather than rents due to lack of sufficiently high quality data on private and social rents.

6. Three key flaws can be identified in the UK's planning and tax systems. The first is the fact that the UK operates a so called 'development control' system, which is inherently geared towards containing development. In contrast to a rule-based zoning system – in use e.g. in the US and throughout Continental Europe – the UK system stipulates that any change of 'use' of any parcel of land requires development control permission granted at local level. Permissions are granted by local planning authorities, which invoke a consultation process that gives significant weight to NIMBY pressures.
7. The development control system (i) is complex, (ii) substantially increases the cost of the development process and (iii) creates a great degree of uncertainty during the planning stage about flows of revenues and costs of development projects. The lengthy and uncertain process delays and significantly reduces the viability of projects. The viability is further threatened by so called Section 106 agreements that often require lengthy and complicated negotiations between developer and local authority and are attached with a great degree of uncertainty from the perspective of the developer. It is often only large established developers who are familiar with the UK system of land use planning and thus capable of successfully delivering major residential development projects. In conjunction with lack of fiscal incentives at local level – discussed next – the development control system can to a large extent explain the growing housing shortfall.
8. The second key flaw lays in the tax system: the lack of fiscal incentives at local level to permit residential development. Local authorities that grant development control permission retain little tax revenue.<sup>7</sup> This is made worse because of the central government grant "equalisation system", which – in the medium- to long-term – more or less eliminates any revenue gain for local authorities that permit more development relative to those that are more restrictive. Any increase in the local tax base is effectively equalised away by the central government. Yet, the cost of additional infrastructure that development makes necessary – local roads, schools and the like – is rarely met fully by the central government. Worse, local residents bear the main burden associated with increased local congestion or pressures on public services such as local schools, increasing local opposition often beyond those neighbours who are immediately adversely affected by a development project and who cannot be financially compensated in any way under the current system.
9. The full retention of business rate by local authorities from 2020 will create *additional*<sup>8</sup> incentives to permit commercial development. This is in principle a welcome move. The trouble is that this additional development likely will come at the expense of making land available for private and social housing, arguably worsening the affordability crisis.
10. The third key flaw is that the UK system of land use planning has imposed an extraordinary amount of restrictions that effectively constrain where and what kind of residential development can occur. Larger cities are surrounded by enormous green belts that are effectively sacrosanct from residential development and thus prevent the delivery of the type of housing – single family (owner-occupied) housing – that is most desired by large fractions of the population, but is arguably in shortest supply. Height restrictions constrain tall buildings in nearly all high-demand locations. Protected view corridors prevent construction of tall buildings in some of the most productive inner city areas. Conservation areas and listed building designations prevent the adaptation of the housing

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<sup>7</sup> Local tax revenue – from the Council Tax – is very low in the UK compared to other countries.

<sup>8</sup> Local authorities, even absent of the retention of business rate, especially in struggling labour markets, may have greater incentives to permit commercial compared to residential development. This is because of the positive long-run effects of commercial development on local employment. Housing is being built where there are the fewest disincentives to permit development rather than where demand is greatest.

stock in large parts of urban locations. The combination of these horizontal and vertical supply constraints further reinforces the unresponsiveness of supply.

11. The restrictiveness is excessive in an international comparison and while some of these constraints can be justified on the grounds of market failure<sup>9</sup>, many arguably cannot. The opportunity cost of some of these restrictions is excessive – yet typically completely ignored in the planning process – and may bear no relation to the social benefits created by these restrictions.<sup>10</sup>
12. Planning induced supply constraints do not only push up house prices in the longer-run, in conjunction with business cycles they also amplify house price volatility, thereby creating systemic risks.
13. Regulatory constraints tend to be tighter and more binding in higher demand places<sup>11</sup>, with the consequence that housing is built in the ‘wrong’ places; too little housing is produced in the most successful, most productive growing cities. Evidence for the United States<sup>12</sup> suggests that these economic costs may be steep. Lowering regulatory constraints in high productivity cities like New York, San Francisco and San Jose to the level of the median city would increase US production by about 9.5%. The effect may be of a similar order of magnitude for the UK.

## II. OVERALL IMPACT OF RECENT GOVERNMENT INTERVENTIONS IN THE HOUSING MARKET

14. The Government and the previous coalition Government have been intervening in the housing market to an extraordinary degree. It is not feasible within the remit of this written evidence to comment on all these interventions. For evidence on other policies not discussed here – such as Right to Buy – I refer the Committee to my recent CEP election analysis on housing and planning.<sup>13</sup>
15. The Government’s key policy to address the housing affordability crisis is ‘Help to Buy’ with its various schemes. Below I first provide an assessment of the overall impact of this policy (and similar policies that aim to stimulate housing demand). Next, I comment on the most recent reform to the Stamp Duty Land Tax (SDLT) and its impact on the Buy to Let market, as well as on the wider implications of the SDLT.
16. A further set of questions at the oral evidence session surrounded the Buy to Let mortgage boom. I would like to comment on the most recent reform to the Stamp Duty Land Tax (SDLT) and the wider implications of this tax.

<sup>9</sup> There are strong arguments e.g. to protect historic buildings or preserve areas of outstanding natural beauty.

<sup>10</sup> One such is the vista to St. Paul’s Cathedral from King Henry VIII’s Mound in Richmond Park. This view corridor, created in 1710, constrains development within a range of over 16 kilometres, the distance between the mound and the cathedral. The protected vista has limited development around Liverpool Street Station, as tall structures would form an unacceptable backdrop to the view of the cathedral.

<sup>11</sup> Davidoff, T. (forthcoming) Supply Constraints are Not Valid Instrumental Variables for Home Prices Because They are Correlated with Many Demand Factors. In: *Critical Finance Review*. Latest discussion paper version: <http://cfr.ivo-welch.info/2017/davidoff.pdf>.

Hilber, C.A.L. and F. Robert-Nicoud (2013) On the Origins of Land Use Regulations: Theory and Evidence from US Metro Areas, *Journal of Urban Economics*, Vol. 75, 29-43. Link: <http://www.sciencedirect.com/science/journal/00941190/75>. Latest discussion paper version: [http://personal.lse.ac.uk/hilber/hilber\\_wp/hilber\\_robertnicoud2012\\_forthcoming\\_JUE.pdf](http://personal.lse.ac.uk/hilber/hilber_wp/hilber_robertnicoud2012_forthcoming_JUE.pdf).

<sup>12</sup> Hsieh, C.-T. and E. Moretti (2015). ‘Why Do Cities Matter? Local Growth and Aggregate Growth’, mimeo: University of Chicago and University of California, Berkeley. Link: <http://faculty.chicagobooth.edu/chang-tai.hsieh/research/growth.pdf>

<sup>13</sup> Hilber, C.A.L. (2015) The UK Housing and Planning Policies: The Evidence from Economic Research. Centre for Economic Performance 2015 Election Analysis Series, No. 33.

### A. IMPACT OF HELP TO BUY ON HOUSING AFFORDABILITY

17. The government's Help to Buy schemes are intended to stimulate housing demand – which, in theory at least, could or should translate into new housing being supplied and higher homeownership.
18. The trouble with such demand side stimuli is that in the UK – at least in large parts of the country – supply does not sufficiently respond to increasing housing demand, and, as a consequence, house prices must rise. The effect of Help to Buy on house prices has not yet been rigorously quantified in academic research.<sup>14</sup> However, house price and construction statistics seem strongly suggestive that Help to Buy did not have the intended effects.<sup>15</sup>
19. The Government may be well intended in helping young households to get on the owner-occupied housing ladder, but given that supply – at least in parts of the country – does not respond to demand shifts, prices will rise, which makes it even more difficult for young households to afford owner-occupied housing.
20. Evidence from the US<sup>16</sup> suggests that the capitalisation of mortgage related subsidies into house prices in fact decreases homeownership attainment in tightly regulated cities, whereas subsidies increase homeownership in less regulated places.
21. Even the less restrictive places in the UK are arguably still restrictive in an American and international context, and the most restrictive areas – in particular the Greater London Area – may be significantly more restrictive than even the most restrictive American cities. It would thus seem likely that Help to Buy policies have an overall zero or negative effect on homeownership attainment. This is consistent with the observed continuous decline in homeownership rates across the UK<sup>17</sup>, and in particular in the most constrained places of the country.
22. The Help to Buy schemes may also have created a systemic risk in that the Government (and indirectly the taxpayer) assumes most of the risks associated with the guarantee schemes, with the remaining risk being assumed by the marginal homebuyers (that is, those who could not obtain loans in the absence of the scheme).

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<sup>14</sup> Shelter ([https://england.shelter.org.uk/professional\\_resources/policy\\_and\\_research/policy\\_library/policy\\_library\\_folder/research\\_how\\_much\\_help\\_is\\_help\\_to\\_buy](https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/research_how_much_help_is_help_to_buy)) estimated that Help to Buy led to an increase in house prices of 3 percent, adding around £8,250 to the average cost of a UK home (page 7 of report). The Office for Budget Responsibility (<http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-march-2016/>) estimates that the new Lifetime ISA is likely to increase prices by a further 0.3 percent nationwide (page 51 of report). While I am not in a position to reaffirm these numbers, they do not seem implausible (i.e., they could be either an under- or overestimate of the true impact). It is however likely that the impact varied by region. While fewer properties are eligible for Help to Buy mortgage guarantees in London, the price effect may still have been bigger in the Greater London Area because supply in the capital is so incredibly unresponsive to demand shifts.

<sup>15</sup> According to Nationwide, following the announcement of the first Help to Buy schemes, house prices in London shot up by 25.8% between 2013q2 and 2014q. A residential building boom failed to emerge and homeownership attainment continued to decline during this time period. Proponents of Help-to-Buy have argued that the *equity loan scheme* only applies to new build homes. This should only increase the demand for new build homes and thus lead to more construction. However, this is a flawed argument: existing homes, new build homes and rental homes are all reasonably close substitutes, so Help to Buy will affect aggregate demand for housing and not just that of new build.

<sup>16</sup> Hilber, C.A.L. and T. Turner (2014) The Mortgage Interest Deduction and Its Impact on Homeownership Decisions, *Review of Economics and Statistics*, Vol. 96, No. 4, 618-637. Link: [http://www.mitpressjournals.org/doi/abs/10.1162/REST\\_a\\_00427](http://www.mitpressjournals.org/doi/abs/10.1162/REST_a_00427). Latest discussion paper version: [http://personal.lse.ac.uk/hilber/hilber\\_wp/HilberTurner\\_forthcoming\\_REStat.pdf](http://personal.lse.ac.uk/hilber/hilber_wp/HilberTurner_forthcoming_REStat.pdf).

<sup>17</sup> The homeownership rate has been in decline since the turn of the millennium, falling from 69.6% in 2002 to 63.6% in 2013.

23. In the UK – because supply is so unresponsive to demand shocks – Help to Buy and other demand-side policies may thus be an ineffective waste of taxpayer money at best and counterproductive at worst.

#### B. IMPACT OF STAMP DUTY REFORM ON BUY TO LET MARKET

24. Transfer taxes on property have long been acknowledged as being economically inefficient and harmful.<sup>18</sup> Evidence from economic research firmly suggests that the Stamp Duty Land Tax (SDLT) – which taxes property transactions – reduces household mobility.<sup>19</sup> Recent research for England<sup>20</sup> furthermore shows that this adverse effect is mainly confined to housing related and short distance moves. The resulting mismatch in the housing market further exacerbates the affordability crisis.
25. The recent reform to the SDLT imposed an additional 3 percent stamp duty charge on Buy to Let properties and second homes and reduced the threshold for the taxation of such properties from £125,000 to £40,000. This will have the likely effect of suppressing demand for Buy to Let mortgages and, thus, for purchases of to-let properties.
26. Whether the SDLT surcharge on Buy to Let properties is a helpful move from the point of view of reducing system risk depends on whether demand for Buy to Let has been mainly driven by underlying demand and supply fundamentals (including regulatory supply constraints and the rise in wealth inequality) or whether ‘amateur landlords’<sup>21</sup> and lenders have started to form unrealistic expectations about future returns and/or overlook downturn risks. To the extent the latter (‘irrational exuberance’) were the case, taking out some ‘steam’ from the market would be a welcome move.
27. I am agnostic about whether lending decisions and uptake of Buy to Let mortgages may have been substantially driven by unrealistic expectations. One plausible alternative explanation is that owner-occupied housing has become increasingly unaffordable for a large fraction of the population, spurring demand for private rental housing and driving up rental prices. This may have incentivised a growing cohort of wealthy investors to enter the Buy to Let market. The demand for Buy to Let mortgages and the corresponding supply of private rental housing may have been further stimulated by favourable tax conditions<sup>22</sup> and a general lack of alternative investment options with attractive returns. Put differently, the Buy to Let boom could have been driven entirely by fundamentals.
28. The evidence to date does not allow us to conclusively answer whether the Buy to Let boom has been predominately driven by fundamental factors or unrealistic expectations. It would however seem sensible to err on the ‘safe side’ and, thus, the Bank of England’s measures to impose tighter mortgage underwriting standards for Buy to Let mortgages

<sup>18</sup> Mirrlees, J., S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba (2011) *Tax by Design: The Mirrlees Review*, Oxford University Press.

<sup>19</sup> Besley, T., N. Meads and P. Surico (2014) The incidence of transaction taxes: Evidence from a stamp duty holiday, *Journal of Public Economics*, Vol. 119, 61-70. Link: <http://eprints.lse.ac.uk/59637/>. Best, M.C. and H.J. Kleven (2015) Housing Market Responses to Transaction Taxes: Evidence from Notches and Stimulus in the UK, mimeo, London School of Economics, February. Link: [http://www.henrikkleven.com/uploads/3/7/3/1/37310663/best-kleven\\_landnotches\\_feb2016.pdf](http://www.henrikkleven.com/uploads/3/7/3/1/37310663/best-kleven_landnotches_feb2016.pdf).

<sup>20</sup> Hilber, C.A.L and T. Lyytikäinen (2015) Transfer Taxes and Household Mobility: Distortion on the Housing or Labor Market?, SERC Discussion Paper, No. 187, October. Link: <http://www.spatialeconomics.ac.uk/textonly/SERC/publications/download/sercdp0187.pdf>.

<sup>21</sup> One particular concern is that the pension reforms of last year, which made it easier for pensioners to take out cash, may have fuelled demand in the Buy to Let market beyond what can be justified by fundamentals.

<sup>22</sup> Expensive investment properties effectively have a zero marginal Council Tax rate implying very low investment holding costs. This is driven by the fact that the Council Tax is highly regressive; the tax bears little relation to underlying property values.

may be welcome as a precautionary move. My view on the SDLT surcharge is less favourable because transfer taxes on property are generally inefficient in that they discourage mutually beneficial transactions and prevent properties from being held by the people who value them most and use them to the greatest effect. Specifically, the SDLT surcharge may encourage Buy to Let landlords from holding on to their properties longer than would be optimal.

29. Another aspect – the flip side – is that Buy to Let landlords provide much needed private rental housing. Any intervention to curb demand for Buy to Let mortgages also implies that the supply of private rental housing is reduced. The equilibrium effect of this is to reduce the private rental housing stock and to increase private rents. However, any reduction in supply of private rental housing should, in equilibrium, be commensurate with an increase in the supply of owner-occupied housing (the total housing stock is not – or at least not positively – affected by this reform). This should induce some private renters to become owner-occupiers, all else equal. In equilibrium, house prices may be slightly lower, though this price effect is likely to be small due to the fact that the owner-occupied housing market is large compared to the private rental one. In a nutshell, the reform will hurt rather than help private renters. Moreover, the reform does nothing to incentivise new housing supply and thus tackle the affordability crisis.
30. The increase of the stamp duty rate for second homes may make new second home investments slightly less attractive for foreign buyers – although the stamp duty increase may be capitalized into a lower purchase price for housing that is suitable for second home investors, so may not have much or any adverse effect on future investors. It may merely impose a one-time negative wealth effect for existing second home investors, foreign or not. Importantly, the stamp duty rate increase does not create any incentives for foreign investors to increase the intensity of use of their second homes – they may still be empty for much of the year. This is because – in contrast to an annual property tax – the SDLT only applies when a property is transferred from one buyer to another.

### III. RECOMMENDATIONS FOR ACTION

31. To tackle the affordability crisis, reduce systemic risks related to price volatility, and boost productivity, reforms ought to focus on the supply rather than the demand side. These reforms are of a fundamental nature and subject to political obstacles – unlike the ‘sticking plaster reforms’ that may be politically more attractive. Yet, they are the best – perhaps only – way to provide a sustainable solution to the housing affordability crisis.
32. Supply-side reforms ought to be considered in three broad areas: (1) reform of planning system, (2) reform of ways property is taxed, residential development is locally incentivised and local public infrastructure and services are financed and (3) review and validation process for existing planning constraints.
33. My first recommendation is that the Government considers transitioning from the current development control system towards a rule-based zoning system. This transition could be piloted in a ‘Special Planning Zone’ and later introduced country-wide. The aim would be to rationalise and simplify the allocation of land use and dramatically reduce planning uncertainty.<sup>23</sup> The basic idea would be that instead of requiring development control permission for any change of ‘use’ of any parcel of land, certain areas would be zoned for residential purposes and within those zones there would be an automatic presumption of

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<sup>23</sup> A reduction of planning uncertainty would not only make many development projects more viable. It would also reduce the value of the so called ‘real option’ to delay development of land with planning permission. This would thus reduce hoarding of land with planning permission by developers for strategic reasons.



development as long as the owner of land can convey that certain building regulations are obeyed. Neighbours could object only if they can substantiate that rules are clearly violated. This would replace the current process that involves a lengthy public consultation and often complicated Section 106 negotiations.

34. My second recommendation is that any reform of the planning system is accompanied by additional fiscal incentives at local level to allocate land for residential purposes: either to grant planning permission (under the current system) or to allocate land for future residential development (under the proposed rule-based zoning system). Several reforms ought to be considered.<sup>24</sup> As a general principle, local taxes should be given more weight in the tax system and development induced increases in the tax revenue base should not be ‘equalised away’ through the central government grant system.
35. The current council tax, which bears little relation to underlying property values, ought to be replaced with a proper annual local property tax – or better even: land value tax – with automatic annual revaluation based on neighbourhood specific price changes. This tax should be given more weight. This could be achieved via abolishing the SDLT and correspondingly increase the local property tax rate(s) in an overall revenue neutral way. The key advantages of a sizeable annual local property tax are threefold. First, it would generate a permanent revenue stream that would incentivise local authorities to make more land available for residential development. Second, it would reduce the occurrence of underused or vacant housing and would generally ensure the optimal use of the scarce resource land. Third, a property tax – and even more so: a land value tax – is attached with a far smaller economic ‘deadweight loss’ compared to the SDLT.
36. In addition to property tax induced incentives, local authorities should be allowed to impose impact fees. Such fees are imposed on proposed development projects to pay for all or a share of the costs of providing additional local public infrastructure and services.
37. My third recommendation is that the Government requires the enacting bodies (typically local authorities) to critically review major existing planning constraints such as green belts, height restriction areas, protected view corridors (where these extend over a certain threshold distance and/or are located in a high-demand area) and conservation areas. The Government ought to require some sort of cost-benefit analysis to establish whether the constraints can be justified on the grounds of market failure. For the case of green belt land for example, a guiding principle should be that the enacting body needs to justify preservation on grounds of significant environmental or amenity value. If no particular environmental or amenity value can be established (especially if such land is in high-demand areas), a presumption for development would be enacted. In a similar fashion, if the local authority cannot establish that the benefits of a protected vista or height restriction area exceed their opportunity costs, such constraints ought to be relaxed.

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<sup>24</sup> There have been timid attempts in this direction by the coalition Government. Sadly, the New Homes Bonus has been only moderately successful, in part because the fiscal incentives were only of a temporary nature (for three years) and too small to be fully effective.